

THE CITY OF  
**PORTSMOUTH**

# **Comprehensive Annual Financial Report**

For The Fiscal Year Ended June 30, 2011



Portsmouth's NEW Children's Museum of Virginia

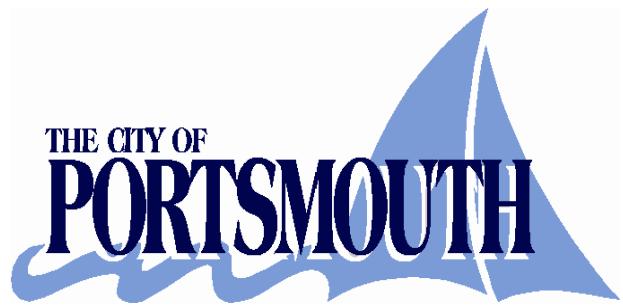


**Portsmouth, Virginia**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**CITY OF PORTSMOUTH, VIRGINIA**

YEAR ENDED JUNE 30, 2011

Prepared by:  
DEPARTMENT OF FINANCE



# CITY OF PORTSMOUTH, VIRGINIA

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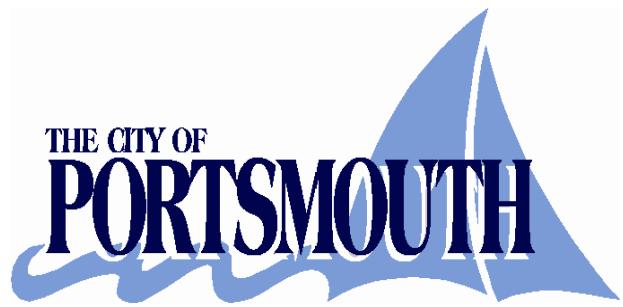
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## **INTRODUCTORY SECTION**

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# CITY OF PORTSMOUTH, VIRGINIA

## Principal Officials

June 30, 2011

### Portsmouth City Council

	MAYOR KENNETH I. WRIGHT Term Expires 6/30/2012		
	VICE MAYOR CHARLES B. WHITEHURST, SR. Term Expires 6/30/2012		COUNCILMAN WILLIAM E. MOODY, JR. Term Expires 6/30/2014
	COUNCILWOMAN MARLENE W. RANDALL Term Expires 6/30/2014		COUNCILMAN STEPHEN E. HERETICK Term Expires 6/30/2012
	COUNCILMAN PAIGE D. CHERRY Term Expires 6/30/2014		COUNCILMAN DR. CURTIS E. EDMONDS, SR. Term Expires 11/08/2011



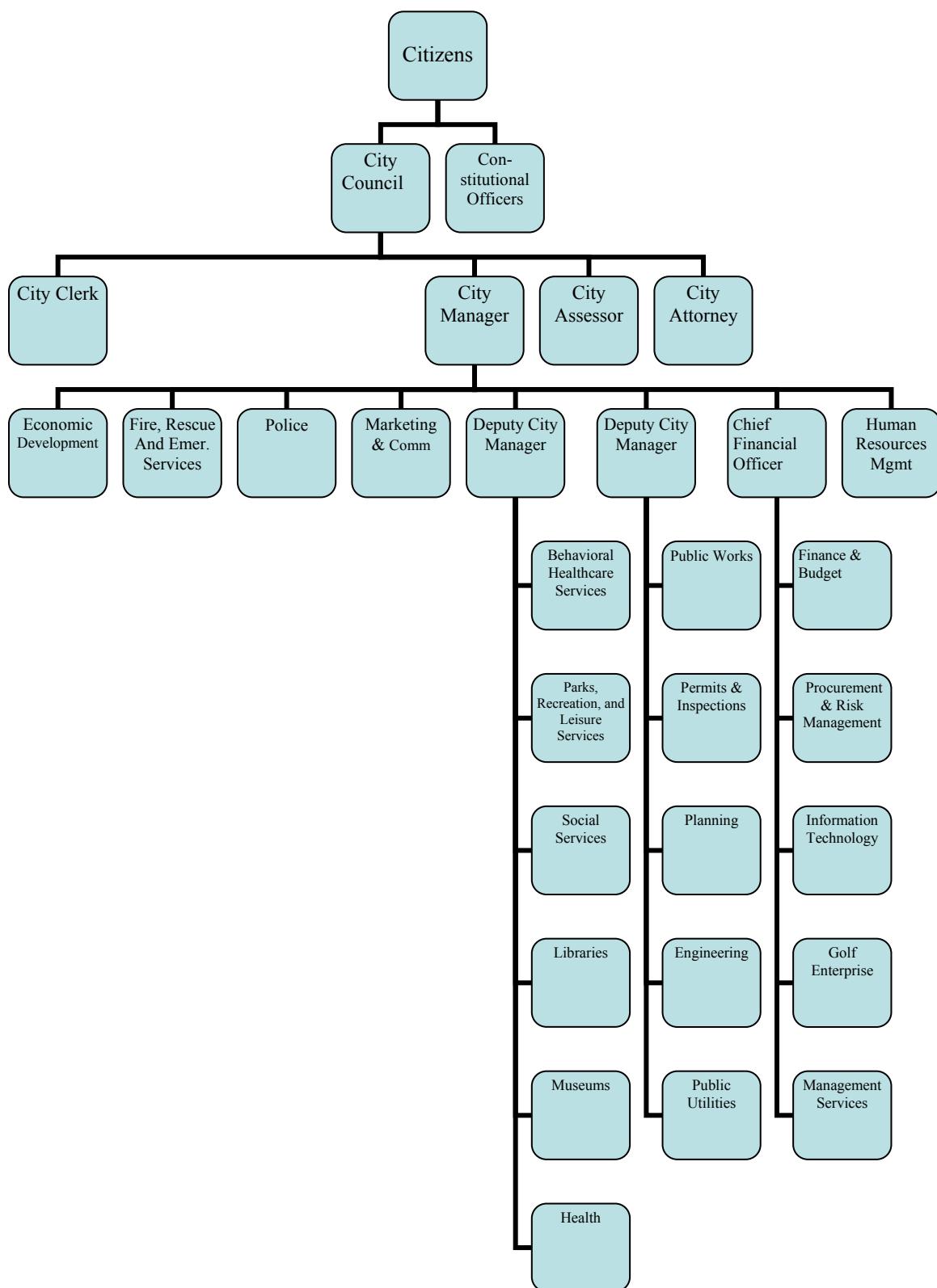
### City Council Appointments

Kenneth L. Chandler .....	City Manager
G. Timothy Oksman .....	City Attorney
Janey Culpepper .....	City Assessor
Debra Y. White .....	City Clerk

### Constitutional Officers

Earle Mobley .....	Commonwealth's Attorney
Cynthia P. Morrison .....	Clerk of Circuit Court
Franklin D. Edmondson.....	Commissioner of the Revenue
Bill Watson .....	City Sheriff
James L. Williams .....	City Treasurer

# Organization of the City of Portsmouth



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Portsmouth  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

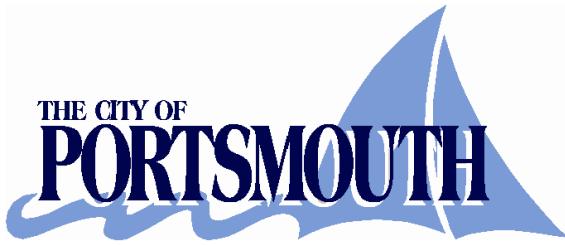


*Linda C. Danison*

President

*Jeffrey P. Evers*

Executive Director



January 6, 2012

Dear City of Portsmouth, Virginia Citizens, and Council Members:

We are pleased to present the Comprehensive Annual Financial Report of the City of Portsmouth, Virginia (the City) for the fiscal year ended June 30, 2011, in accordance with State statutes and City Code. The City's Department of Finance prepared this report in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board. City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Portsmouth's MD&A can be found immediately preceding the Basic Financial Statements.

The City of Portsmouth, Virginia was established by act of the Virginia General Assembly in 1858. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. City Council consists of a mayor and six other council members. The City is not part of a county, and it has taxing powers subject to statewide restrictions and tax limits.

The City provides a full range of municipal services, including police and fire, solid waste, recreation and cultural activities, economic development, health and social services, street and highway maintenance, public improvements, planning and zoning, building inspections and environmental code compliance, general administrative services, education, and water and sewer services.

The financial reporting entity for this report includes the City (the primary governmental unit) and all of its funds, as well as the component units for which the City is financially accountable. We include the Portsmouth School Board (School Board), the Economic Development Authority of the City of Portsmouth (EDA) and the Portsmouth Port and Industrial Commission (PPIC) in the report as discretely presented component units in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. The members of the Portsmouth School Board are elected by the qualified voters of the City of Portsmouth, and the School Board governs the operations of the Portsmouth Public School System. City Council appoints separate boards to administer the EDA and PPIC component units.

The financial reporting entity also includes the Parking Authority; we consider this to be a blended component unit because its activities are so intertwined with the City that they are, in substance, part of the City's operations.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal controls. Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, misuse, and abuse. It is also management's goal to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable assurance that management's objectives are met. The concept of reasonable assurances recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of cost and benefits requires judgments and estimates made by management. As management, we assert to the best of our knowledge that this financial report is complete and reliable in all material respects.

## **City Council Vision: Bold Leadership for the Future**

In December 2008, the Portsmouth City Council reassessed and updated a series of long term vision statements that were designed to guide the City into the future, both as a community and an organization. In the fulfillment of Council's vision, the City will be nationally regarded for educational excellence and economic prosperity, where citizens are proud of themselves, their hometown, and their neighborhoods; Portsmouth City Council is recognized for involving all communities and citizens in its decision-making; Members of the City Council encourage and nurture new ideas from citizens, employees, business leaders, and the faith-based community to embrace new ways to meet the challenges of the future.

Building on that strong record of success, the City Council with its vision statements, sought to define an even more successful and liveable future for the City of Portsmouth. Each of the statements described the future of the City of Portsmouth in the year 2025 and revolved around six key components, as follows:

- *Bold New Directions*
- *A Robust and Prospering Economy*
- *World Class Maritime Center*
- *Lifelong Learning Community*
- *Thriving Neighborhoods and a Sense of Community*
- *Pride of Past, Promise of Future*

The entire City organization has fully embraced these powerful vision principles and put into motion a number of one-time and multi-year projects designed to make our principles a reality. In the following sections each of the vision principles is outlined and Fiscal Year 2011 projects that address it are highlighted.

## **Bold New Directions**

**Vision Principle:** *Our visionary leadership is proactive in anticipating the ever-changing world. We boldly embrace the future in ways that inspire and challenge our citizens to seize the opportunities of the new era. As a historical regional partner, the City engages neighboring communities to solve area challenges. We are committed to using innovation and emerging technologies to succeed in the information and knowledge-based society. Portsmouth has become the hometown of choice and a community of international reputation.*

Cross-departmental collaboration is vital in implementing this vision principle, and it is directly responsible for movement on many City projects in furthering this vision principle. During fiscal year 2011, the City held a groundbreaking ceremony for the new Portsmouth Judicial Center. The buildings that presently house the Portsmouth Courts are near or past the end of their useful life, and are inadequate for the public and the judicial system. The new Portsmouth Judicial Center, for all courts and related administrative offices is planned to provide 12 new courtrooms, including six Circuit Court, three General District, and three Juvenile and Domestic Relations. The facility will provide offices for the Commonwealth's Attorney, Juvenile Court Services and the Portsmouth Sheriff. The facility will incorporate state-of-the-art courthouse design and amenities, in compliance with the Virginia Courthouse Facility Guidelines. The Portsmouth Judicial Center is scheduled to be completed in September 2012.

The investment in the Portsmouth Judicial Center will serve as a catalyst for new employment and significant private sector reinvestment. In addition, the existing Courts facility property will be available for redevelopment or new development which will further enhance Portsmouth's economic growth.

## **A Robust and Prospering Economy**

**Vision Principle:** *Portsmouth is a financially prosperous community with a superior quality of life. Residents enjoy diverse employment choices from maritime, manufacturing, medical, military, marketing, management and technology-based opportunities. Portsmouth municipal government has created an environment that has embraced a long-term strategic military presence and generated significant private investment. The City is broadly recognized for its quality housing, highly skilled workforce, expanded tax base, and one of the region's lowest real estate tax rates, along with its enviable bond rating.*

The City's degree of prosperity is a tangible and yet an intangible factor. As a tangible factor the growth and development of the City is progressing. The work to expand and enhance industries such as maritime, hospitality, retail and other general categories of commercial development persist. Our prosperity is exhibited through the growth in taxable assets and the creation of jobs that accompany these developments. The slowing economy is a reality that is currently impacting development in the City, but we are redoubling our efforts to continue to create material positive changes. Each new development is accompanied by an opportunity to create new or to sustain jobs, providing a direct benefit to the citizens of the City.

As new taxable assets materialize in the City, additional tangible value and benefits are realized. The business community contributes to the overall quality of life in the City as it provides goods

and services needed and desired by the citizens. It also contributes to the revenue stream that supports and sustains City services required to maintain a quality of life and standard of living for our citizens.

A diversity of industries is the goal of development. This will provide a base of business in the City that is sustainable and less susceptible to the peaks and valleys of national and regional economic conditions. The pursuit and development of new businesses in the City is ongoing as is the goal to develop “A Robust and Prospering Economy”.

### ***General Fund Performance***

The growth in the City’s tax base is a significant factor of economic and fiscal health. General property and other local taxes account for more than 72% of General Fund revenues. The assessed value of real property decreased 344,553 million, or 4% during 2011. The increase in assessment values is an extremely positive indicator in evaluating the health of Portsmouth’s local economy. The real estate tax rate remained the same rate of 1.24 for fiscal year 2010 and fiscal year 2011.

The General Fund accounts for all revenues and expenditures that are not accounted for in specific purpose funds. It finances the regular day-to-day operations of the City. A strong unassigned fund balance is an indication of financial flexibility and fiscal strength. The City’s unassigned fund balance at June 30, 2011 represents 20% of total revenues and transfers, which exceeds the City’s adopted financial policy of 15%.

The following table presents the City’s General Fund ratio of unassigned fund balance to total revenues and operating transfers for the last five fiscal years:

<b>Fiscal Year</b>	<b>General Fund Unassigned Fund Balance</b>	<b>General Fund Total Revenues &amp; Operating Transfers</b>	<b>Ratio</b>
2011	\$ 42,086,840	205,552,236	20.48%
2010	45,377,732	211,496,674	21.46%
2009	32,533,819	213,390,123	15.25%
2008	26,302,440	216,638,631	12.14%
2007	35,399,112	203,773,001	17.37%

### ***Financial Policies***

The financial integrity of our City government is of utmost importance. To that end, the establishment of appropriate financial management, debt administration, budget and capital plan development, and long-range planning policies (“Financial Policies”) will promote the fiscal health of Portsmouth, as well as the cost-effective and efficient delivery of services to our citizens.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. The City’s Financial Policies will be reviewed annually and

reaffirmed by City Council at least once every three years. The policies discussed below had a significant impact on the financial results reported for fiscal year 2011.

**Use of Fund Balance** - While accumulated fund balance in the General Fund may legally be used as revenue to support the budget, the City's intention is not to use fund balance to fund recurring operating expenditures. Accumulated fund balance over and above the City's fund balance target may be considered for funding one-time expenditures. During fiscal year 2011, the City remained in compliance with this policy by not using the general fund balance to fund recurring operating expenditures, but one time expenditures only. The fund balance in the General Fund increased from \$48,329,746 in fiscal year 2010 to \$51,529,838 in fiscal year 2011.

#### Fund Balance Policy Minimum

The City will maintain an unassigned (unreserved, undesignated) general fund balance equal to 15% of general fund revenues. During fiscal year 2011, the City remained in compliance with this policy. The general fund unassigned fund balance equals 25% of general fund revenues.

#### **Cash Management**

The City uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The City pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The City invests idle cash in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During fiscal year 2011, the City was able to manage its current resources to properly meet its operating cash requirements without issuing Revenue Anticipation Notes.

The City's ability to manage cash for the past two fiscal years and to present balanced bi-annual budgets has been due to Council's willingness to accept the following recommendations from the Administration; establish or amend fees pertaining to erosion and sediment control; increase in the real estate tax rate; increase the City's tax on cigarettes; establish or amend certain fees for services provided by the Department of Fire, Rescue and Emergency Services; reductions for all departments other than public safety and public schools; reduction to certain programs and civic organizations; and unfortunately no general wage increase for employees or retirees.

During fiscal year 2011, the City's Chief Financial Officer continued to work with Davenport and company, the City's Financial Advisors, to develop a cash flow/forecasting model. Council officially adopted a series of financial policies that will serve to guide future decision-making.

One can find additional information on the City's financial status in the Management's Discussion and Analysis section of this report.

## **World Class Maritime Center**

**Vision Principle:** *As a historic waterfront city, Portsmouth is strategically located in the center of the eastern seaboard on the world's largest natural harbor at mile marker "0" on the intra-coastal waterway. The City boasts a world-class, inter-modal transportation system supporting public and private marine terminals as well as thriving, diverse military facilities. Our waterfront features a diverse, unique mixture of recreational boating, marinas, tours, and*

*maritime support industries. Portsmouth is the gateway to international shipping with a global reach.*

The eighth largest economic development project in the history of the Commonwealth, more specifically the operating entity of APM Terminals of Virginia, Inc. solidifies the City's position in the world and industry of maritime. This entity has brought national and international attention to the City from various aspects of the maritime industry. As this entity's presence in the City represents a significant achievement and advancement toward the City's status as a "World Class Maritime Center", it is serving as a catalyst to attract other industry related entities. Additionally, the Virginia Port Authority's future Craney Island development and expansion will further elevate the City's maritime status.

The United States Coast Guard named The City of Portsmouth a "Coast Guard City". The Coast Guard selected Portsmouth due to the city's nearly 200 years of support for the Coast Guard. The honorary distinction is indication of the productive, and ongoing relationship between the City and the local Coast Guard units. Prior to the designation of being a Coast Guard City, only seven other cities had been awarded the designation since the inception of the program establishment date of November 1998.

## **Lifelong Learning Community**

***Vision Principle:*** *Education is the foundation of the City's social, political, and economic well-being and is the top priority of the City. Through collaborative efforts of City Council, School Board, and the private sector, Portsmouth has exceptional public and private schools. This includes learning opportunities for early childhood, primary and secondary education, higher education, career technical training, and workforce development. The City's preferred educational system has made Portsmouth a top choice for employers and families.*

The City desires to develop educational elements that will enhance the learning environment for all ages. Much has been done to advance the public school environment as well as higher education.

One primary development in the City to address this continuing direction was the Simondale Elementary School project.

The Simondale Elementary School project will replace a 33,300 sq. ft. (325 student capacity) school built in 1946 with an 80,000 sq. ft. (700 student capacity) building which will be Leadership in Energy and Environmental Design (LEED) certified. The new building will permit the consolidation of Simondale and Olive Branch elementary schools, and the conversion of Olive Branch into a Pre-Kindergarten center. This project has been made affordable by the Federal American Recovery and Reinvestment Act of 2009.

The following represents the City's history of educational funding over the last five fiscal years. With education set as City Council's number one priority, the City continues to make great strides towards this vision.

Fiscal Year	Operating Transfers to School Board	Education Debt Service Payments	Total Education Funding	Net Change
2011	\$ 48,171,651	1,833,156	50,004,807	(38,011)
2010	48,171,651	1,871,167	50,042,818	(2,595,135)
2009	49,818,483	2,819,470	52,637,953	(92,357)
2008	49,845,490	2,884,820	52,730,310	7,613,872
2007	42,683,991	2,432,447	45,116,438	6,002,863

## Thriving Neighborhoods and a Sense of Community

**Vision Principle:** Portsmouth citizens are encouraged to become active participants in the process of creating their own quality of life, to ensure community safety and to elevate the livability of their own neighborhoods, creating true communities of choice for the 21<sup>st</sup> century. Citizens work together with local government to fully utilize human and community assets, thus producing a state-of-the-art environment that includes excellent schools, public facilities, parks, green spaces, gateways, and roadway corridors. Our neighborhoods have been transformed into communities that promote and celebrate diversity, equity, and the inclusiveness of all citizens.

Portsmouth's rich cultural diversity is celebrated throughout the year in festivals, concerts, and ceremonies. The City's exceptional facilities showcase the visual and performing arts. Portsmouth's seasonal programs and entertainment celebrate its people, history and future.

Portsmouth is recognized as a leader in providing learning opportunities to students and adults in conjunction with world-class festivals, performances, and exhibitions for the citizens of the region.

As part of our commitment to the communities, the City renovated the Children's Museum of Virginia. After nearly nine years of planning, and two years of construction, the City opened the new 72,000-square foot museum to the public in May 2011. The museum has two floors of fun and adventure with amenities to include party rooms, classrooms, facility rentals, handicap accessibility, museum shop, planetarium, and more. The enhancements to the Children's Museum vastly changed the museum's community presence. As part of the enhancements, the main entrance now have a clearly identifiable façade with new exhibits showcasing for the community and tourist alike to enjoy.

Continuing its commitment to the communities, the City held a grand opening for the Pokey Smokey II in May, 2011. Pokey Smokey II is a new seven-bench passenger train attraction that is a scaled replica of an 1863 C.P. Huntington train. In addition, the City and the Cradock Civic League hosted a grand opening event for the Cradock Skate Park in November 2010.

The City continues development on the Victory Village project. Victory Village represents the City's first mixed-use development initiative. It is being developed as a high-quality, pedestrian-oriented environment and will provide the backdrop for a rich and vital urban experience for employers, workers, residents, students and visitors alike. This new development is being

constructed on a 100-acre site in the Victory area of the City. The village will include office, residential, retail, hospitality and education venues. Victory Village is expected to have a minimum of 1,250,000 sq. ft. of new facilities. Construction of the road way for the first phase of Victory Village began in fiscal year 2009 and continued through fiscal year 2011.

## Pride of Past, Promise of Future

**Vision Principle:** *Portsmouth's tomorrows are found in the footsteps of the richest traditions of America, from the earliest days of Colonial Virginia through the victories of equality, dignity, and diversity. As guardian of the collective heritage of many people, we have become one. The Portsmouth family preserves the proudest traditions of the past as the compass for our future, drawing the grace of our spirit into the nobility of what we have become.*

We implement this vision principle daily. We commemorate Portsmouth's exciting historical diversity throughout the year in museum programs, library programs, festivals, concerts, and other ceremonies. Seasonal programs and entertainment punctuate the year, drawing neighbors, families, and guests from throughout the City, the region, and the world to celebrate Portsmouth's people, history, and future. Portsmouth is also proud to be the home of the nation's oldest annually held parade, the Portsmouth Memorial Day Parade, which has been a tradition in the City since 1884.

## Independent Audit

State law requires that a certified public accountant selected by the City Council audit the City's annual financial statements. Cherry, Bekaert, and Holland, L.L.P., Certified Public Accountants performed this annual audit of the financial records and transactions of all funds, component units, and departments of the City for the fiscal year ending June 30, 2011.

The auditors' report, which includes their opinion on the basic financial statements of the City, is contained in this report on page 1.

## Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Portsmouth for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the 34<sup>th</sup> consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Acknowledgments

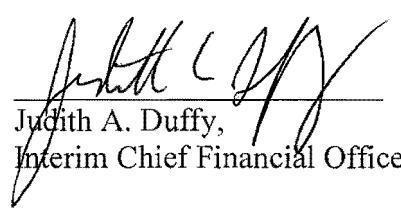
We sincerely appreciate the City Council's support and cooperation in planning and conducting the financial operations of the City.

We also acknowledge and extend special recognition to the City's Controller and all the staff of the Department of Finance for their efficient and dedicated service to the City. Their efforts to maintain the accounting and financial reporting system of the City of Portsmouth have led to the high quality of information being reported to the City Council and citizens of the City, as well as current and potential future investors.

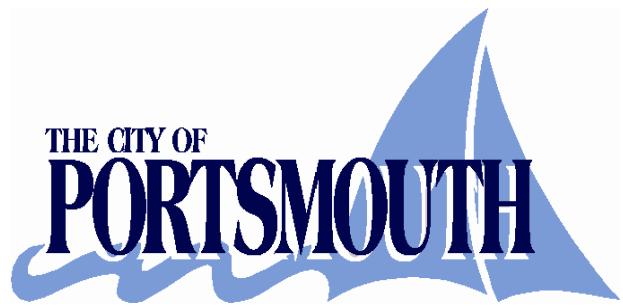
Respectfully submitted,



Kenneth L. Chandler,  
City Manager

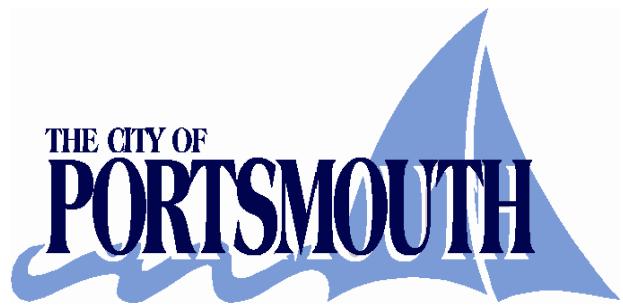


Judith A. Duffy,  
Interim Chief Financial Officer



## **FINANCIAL SECTION**

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members of City Council  
City of Portsmouth, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the individual and aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the individual and aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and schedules of funding progress, as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements, budgetary comparison schedules, statistical section, as well as the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements, budgetary comparison schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

*Cherry, Bekant & Holland, A. Z. P.*

Virginia Beach, Virginia  
January 6, 2012

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the City of Portsmouth's (City's) Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis (MD&A) of the City's financial performance during the fiscal year ended June 30, 2011. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's financial statements that follow this section.

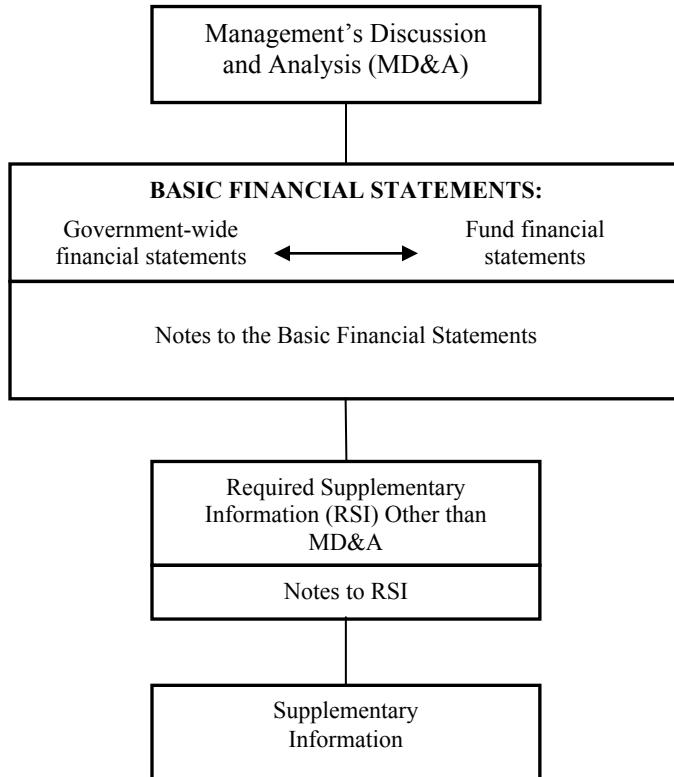
## **FINANCIAL HIGHLIGHTS**

- ❖ The City's net assets totaled \$404 million at June 30, 2011, increasing \$20 million over June 30, 2010. This was in part due to major increases in capital improvement for such projects as the Courts Complex, Children's Museum and Stimulus capital improvement projects.
- ❖ The City's unrestricted net assets totaled \$73 million, which are comprised of \$34 million resulting from governmental activities and \$42 million resulting from business-type activities.
- ❖ Government-wide current assets totaled \$255 million, of which \$177 million was attributable to governmental activities and \$78 million was attributable to business-type activities; while current liabilities totaled \$48 million, with \$35 million from governmental activities and \$13 million from business-type activities. The ratio of current assets to current liabilities was 5.3:1 overall – 5.1:1 for governmental activities and 6.0:1 for business-type activities.
- ❖ The City's long-term indebtedness at June 30, 2011 (including the portions due in fiscal year 2012) totaled \$534 million, for an increase of \$27 million from the prior year. During fiscal year 2011, the City issued General Obligation debt in the amount of approximately \$79 million which includes \$24 million for the new Courts Complex. The long-term indebtedness includes landfill closure and post-closure care of \$6.6 million and compensated absences of \$8.4 million.
- ❖ The City's general revenues and transfers of \$167 million were \$7 million more than expenses, net of program revenues, of \$160 million. Ninety-six percent of general revenues and transfers were funded through taxes.
- ❖ The General Fund total fund balance increased 1% during the current year to \$51 million from \$48 million in the prior year.
- ❖ Total net assets for the Public Utility Fund rose 7% from \$144 million at June 30, 2010 to \$154 million at June 30, 2011.

## **FINANCIAL SECTION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance. As the following chart shows, the financial section of this report has four components - *management's discussion and analysis* (this section), the *basic financial statements*, the *required supplementary information* and the *supplementary information*. The basic financial statements have three components – *government-wide financial statements*, *fund financial statements*, and *notes to the basic financial statements*.

### **Components of the Financial Section**



The City's financial statements present two kinds of statements each with a different snapshot of the City's finances. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

#### **Government-wide Financial Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities in a manner that provides an answer to this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in net assets. The City's net assets, which is the difference between assets and liabilities, is one way to measure the City's overall financial health and its current financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial condition is improving or deteriorating. Other non-financial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

Governmental activities - The City's basic municipal services, such as public safety (police and fire), public works, parks and recreation, and general administration, are reported herein. Property taxes, other local taxes, and state and federal grants finance most of these activities.

Business-type activities - The City charges fees to cover the full cost of services provided to customers. The City's water and sewer system, port facility and economic development fund, waste management services and golf courses are reported herein. The Parking Authority, a blended component unit, accounts for parking services provided to citizens and customers.

Component units - The City includes 3 other separate legal entities in its report - the School Board, the EDA, and the PPIC, all discretely presented. Although legally separate, these "component units" are important in that the City is financially accountable for providing operating and capital funding to them.

## Fund Financial Statements

The focus of the fund financial statement presentation is on the City's most significant funds. The fund financial statements provide more information about the City's most significant funds - not the City as a whole. Funds are accounting units that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. Other funds are established to control and manage money for particular purposes or to demonstrate certain tax and grant revenues are properly used.

The City has three types of funds:

Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) the inflows and outflows of cash and other financial assets that can readily be converted into cash and (2) the balances remaining at year end that are available for future spending. Consequently, the governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on the subsequent page of the governmental funds financial statement that explains the relationship (or differences) between these statements. The City has two major governmental funds, the General Fund and the Capital Improvements Fund.

Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information.

In fact, the City's enterprise funds (one type of proprietary fund) are the same as business-type activities, but the fund financial statements provide more detailed and additional information, such as cash flows. The City has 2 major enterprise funds: the Public Utility Fund and the Parking Authority, a blended component unit.

The City uses internal service funds (another type of proprietary fund) to report activities that provide supplies and services for other City programs and activities, such as the City Garage Fund and the Information Technology Fund.

Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans and is responsible for the plans' assets, which can be used only to benefit the trust beneficiaries as part of a trust arrangement. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The City excludes these activities from the City's government-wide financial statements in that the City cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE CITY ENTITY

### Statements of Net Assets

The following table reflects the condensed Statements of Net Assets:

**Table 1**  
**Summary of Statements of Net Assets**  
**As of June 30, 2011 and 2010 (in millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 181	193	79	84	260	277
Capital assets	461	412	237	221	698	633
Total assets	642	605	316	305	958	910
Current and other liabilities	35	33	13	13	48	46
Long-term liabilities	372	344	134	136	506	480
Total liabilities	407	377	147	149	554	526
Net assets:						
Invested in capital assets, net of related debt	186	179	128	123	314	302
Restricted	15	16	-	-	15	16
Unrestricted	34	33	40	33	74	66
Total net assets	235	228	168	156	403	384
Total liabilities and net assets	\$ 642	605	315	305	957	910

Net assets (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Portsmouth, assets exceeded liabilities by \$404 million at June 30, 2011. By far, the largest portion of the City's net assets, 77%, reflects its investment in capital assets (land, buildings, infrastructure, etc.) net of accumulated depreciation and related debt used to acquire those assets. The City uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources. Approximately 4% of the City's net assets are currently subject to various external restrictions. The remaining balance of unrestricted net assets (\$77 million or 19%) may be used to meet the City's ongoing obligations to citizens and creditors.

The net assets of the City's governmental activities increased by \$7 million from \$228 million to \$235 million, as reflected in the Statement of Activities.

The net assets of the City's business-type activities increased by \$13 million from \$156 million to \$168 million, as reflected in the Statement of Activities.

## Statements of Activities

The following table shows the revenues and expenses of the governmental and business-type activities:

**Table 2**  
**Summary of Changes in Net Assets**  
**Years ended June 30, 2011 and 2010 (in millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<u>Program revenues:</u>						
Charges for services	\$ 14	13	56	53	70	66
Operating grants and contributions	77	82	1	1	78	83
Capital grants and contributions	3	5	-	-	3	5
<u>General revenues:</u>						
Taxes	158	165	-	-	158	165
Other	3	3	1	-	4	3
<b>Total revenues</b>	<b>255</b>	<b>268</b>	<b>58</b>	<b>54</b>	<b>313</b>	<b>322</b>
<b>Expenses</b>						
General government	29	26	-	-	29	26
Judicial	20	21	-	-	20	21
Public safety	63	63	-	-	63	63
Public works	21	21	-	-	21	21
Health and welfare	38	39	-	-	38	39
Parks, recreational, and cultural	12	13	-	-	12	13
Community development	8	15	-	-	8	15
Education	51	55	-	-	51	55
Public utility	-	-	21	22	21	22
Golf	-	-	2	2	2	2
Parking Authority	-	-	2	2	2	2
Waste management	-	-	14	14	14	14
Interest on long-term debt	13	10	-	-	13	10
<b>Total expenses</b>	<b>255</b>	<b>263</b>	<b>39</b>	<b>40</b>	<b>294</b>	<b>303</b>
<b>Excess (deficiency) before transfers</b>	<b>-</b>	<b>5</b>	<b>19</b>	<b>14</b>	<b>19</b>	<b>19</b>
<b>Transfers</b>	<b>7</b>	<b>7</b>	<b>(7)</b>	<b>(7)</b>	<b>-</b>	<b>-</b>
Change in net assets	7	12	12	7	19	19
Net assets, beginning of year	228	216	156	149	384	365
Net assets, end of year	\$ 235	228	168	156	403	384

## **Governmental Activities**

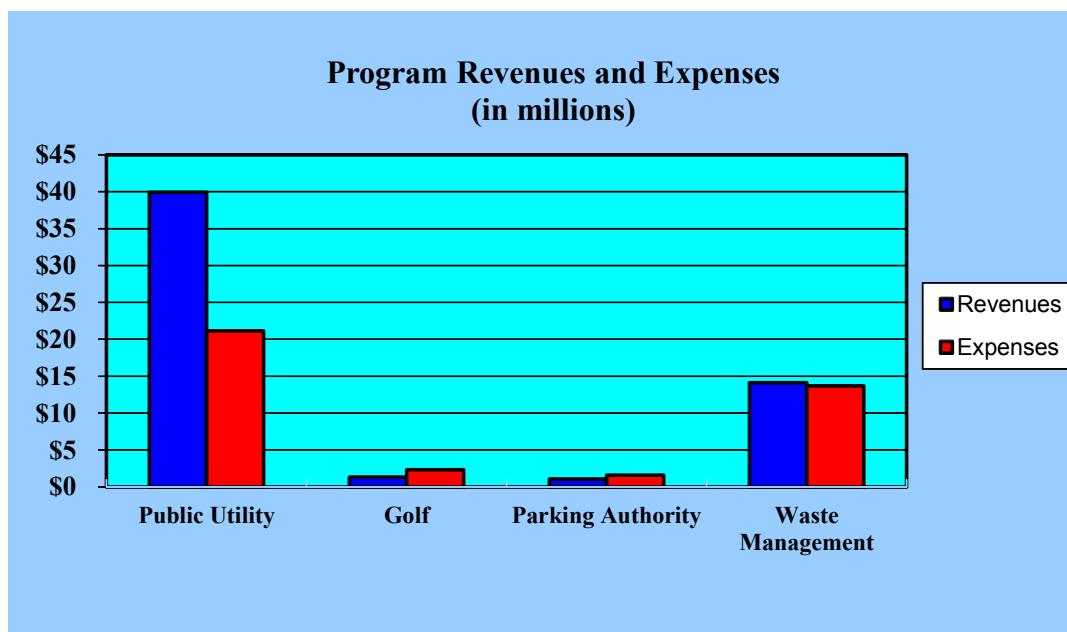
The City's total revenues from governmental activities were \$258 million for the fiscal year ended June 30, 2011, which represents a decrease of \$10 million from the prior year. The change is due in part to a decrease in the assessment of real property values. The largest source of revenue is taxes, which represents 62% of the total and is comprised of property taxes, other local taxes, and utility taxes. The City's assessed real property value increased 1% from the prior year due solely to new commercial construction.

Program revenues are derived from the program itself and reduce the cost of the function to the City. Total program revenues for governmental activities were \$94 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$77 million, representing 82% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2011, expenses for the City's governmental activities totaled \$307 million. The City's expenses cover a wide range of services, with 20% related to public safety, 16% related to education, and 12% related to health and welfare.

## **Business-Type Activities**

The total net assets for business-type activities increased \$12 million from \$156 million in fiscal year 2010 to \$168 million in fiscal year 2011. The increase is primarily due to an \$11 million increase in net assets for public utility activities. Charges for services, including water and sewer utility fees, waste management fees, parking fees, and golf fees, represent 97% of total revenues for business-type activities. The following graph compares the program revenues and expenses of the business-type activities.



## **FINANCIAL ANALYSIS OF THE CITY FUNDS**

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on current inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. For the fiscal year ended June 30, 2011, the governmental funds reflected a combined fund balance of \$125 million. The General Fund's fund balance totaled \$52 million at June 30, 2011, an increase of \$4 million from the prior year. The General Fund's unassigned fund balance totaled \$42 million at June 30, 2011. The General Fund total fund balance totaled \$51 million at June 30, 2011 and \$48 million at June 30, 2010 an increase of \$3 million. The increase is

primarily due to stringent budgeting to reduce expenditures in all departments, a reduction to certain programs and civic organizations, no general wage increase for employees or retirees, an increase in the real estate tax rate and the establishment or amendment of certain fees for services of various city departments.

The City spent \$47 million in the Capital Improvements Fund to fund major projects, including the New Courts Complex, Children's Museum Expansion. The Capital Improvements Fund has a \$59 million fund balance at June 30, 2011, all of which is restricted for future capital project costs.

### **General Fund Budgetary Highlights**

#### **General Fund Budgetary Highlights**

##### **General Fund**

##### **Fiscal Year Ended June 30, 2011 (in millions)**

	Original Budget	Final Budget	Actual
<b>Revenues, transfers and other financing sources</b>			
Taxes	\$ 159	159	159
Intergovernmental	36	36	36
Other financing sources	-	-	48
Transfer	8	8	8
Other	15	17	14
Total	\$ 218	220	265
<b>Expenditures and transfers</b>			
Expenditures	\$ 205	208	203
Other financing uses	-	-	47
Transfers	13	15	12
Total	\$ 218	223	262

Actual expenditures in the above chart are shown on the budgetary basis, which differs from the generally accepted accounting principle basis (see Schedule I-3). The General Fund had a \$3 million dollar increase in fund balance. This increase is primarily due to the decrease in expenditures as a result of management's decision to review and reduce expenditures in all departments.

Actual General Fund revenues and transfers from other funds were equal to the final budgeted revenues during fiscal year 2011. This was a result of the refined budgeting process and the projections of the City's financial advisors. Actual general fund expenditures and transfers were 8 million less than the final budget. This was primarily due to management's efforts to curtail spending in all departments and a moratorium on travel.

### **Proprietary Funds**

Total net assets of the Public Utility Fund increased \$10 million during fiscal year 2011 from \$144 million to \$154 million. Of the total net assets, \$114 million is invested in capital assets, net of related debt. Unrestricted net assets totaled \$41 million, an increase of \$7 million from the prior year. The increase in net assets is due primarily to the fund's net income before transfers of \$7 million.

Total net assets of the Parking Authority, a blended component unit, at June 30, 2011 remained the same as the prior year at \$1 million. Of the total net assets, \$1.5 million is invested in capital assets, net of related debt, and there is an unrestricted net assets deficit of \$386 thousand.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2011, the City had invested \$698 million in a broad range of capital assets, including machinery and equipment, buildings, park and golf facilities, roads, bridges, and water and sewer lines, as reflected in the following schedule:

<b>Capital Assets (net of depreciation)</b>			
<b>As of June 30, 2011 (in millions)</b>			
	Governmental Activities	Business-Type Activities	Total Primary Government
Land	\$ 17	15	32
Site improvements	2	-	2
Infrastructure	146	-	146
Buildings	144	12	156
Intangibles	1	-	1
Improvements other than buildings	-	101	101
Machinery, furniture, and equipment	10	7	17
Construction in progress	141	102	243
Total	\$ 461	237	698

Major capital asset activity for the fiscal year ended June 30, 2011 included:

- Capital asset additions for governmental activities totaled \$67 million, including \$57 million for construction in progress, \$7 million for buildings, \$3 million for machinery and equipment.
- Capital asset additions for business-type activities totaled \$21 million for construction in progress.
- Depreciation expense totaled \$11 million and \$6 million for governmental and business-type activities, respectively.
- Construction in progress totaled \$141 million for governmental activities at June 30, 2011.
- Construction in progress totaled \$101 million for business-type activities at June 30, 2011.

More detailed information about the City's capital assets is presented in Note 4 to the basic financial statements.

The City's fiscal year 2012 capital budget estimates spending another \$64 million for capital projects. The major projects include \$18 million for water and sewer improvements, \$5 million for drainage and sewer improvement, \$35 million for municipal facilities, \$3 million for fleet management, and \$1 million for education.

## **Long-term Debt**

At year-end, the City had \$464 million in outstanding debt; excluding landfill closure and post closure care costs, and compensated absences. General obligation bonds outstanding represented \$392 million of this total, as reflected in the following schedule:

### **Outstanding Debt As of June 30, 2011 and 2010 (in millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 266	\$ 242	126	130	392	372
General obligation notes payable	50	25	-	-	50	25
Obligations under capital leases	17	14	3	2	20	16
Bond Anticipation Note	-	30	-	-	-	30
Literary loans	2	2	-	-	2	2
Total	\$ 335	\$ 313	129	132	464	445

On December 16, 2010, the City issued \$30,760,000 of General Obligation and Refunding Bonds, Series 2010D with a premium of \$824,424. The bonds were issued to redeem the City's General Obligation Bond Anticipation Note, Series 2008 and to currently refund the City's General Obligation Public Utility Refunding Bonds, Series 1997B.

On February 10, 2011, the City entered into a Master Equipment Lease Agreement with Banc of America Public Capital Corp. The amount of proceeds issued was \$11,553,635 of which \$5,095,135 was used to refund existing leases and \$6,228,500 was for the purchase of vehicles and equipment for the City.

On June 28, 2011, the City issued \$23,890,000 of Series 2011 General Obligation Refunding Bonds with a premium of \$3,616,936 and \$24,000,000 of Series 2011 General Obligation Notes with a premium of \$1,245,290. The proceeds of the Series 2011 General Obligation Refunding Bonds were used to advance refund a portion of the City's General Obligation Refunding Bonds, Series 2003 and the General Obligation Refunding Bonds, Series 2005A. The Series 2011 General Obligation Note was issued to fund the City's New Court Complex.

The state limits the amount of general obligation debt the City can legally issue to ten percent of the assessed value of real property within the City. The City's outstanding debt, not all of which is applicable to the state limits, is significantly below this limit - which is currently \$733 million.

The City maintains bond ratings on general obligation debt of "Aa2," "AA," and "AA," from Moody's Investors Service, Standard & Poor's Ratings Services and Fitch, Inc., respectively.

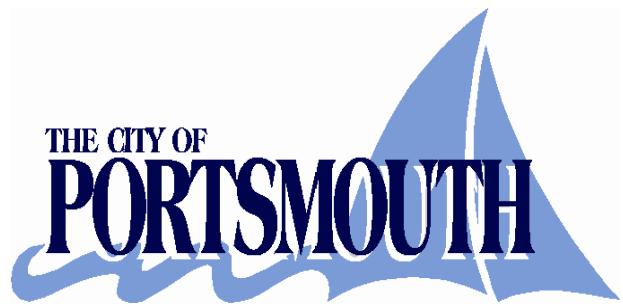
More detailed information about the City's long-term liabilities is presented in Note 5 to the basic financial statements.

## **ECONOMIC FACTORS**

The City's unemployment rate for June 2011 was 8.8%, which compares to the national unemployment rate of 9.2% for June 2010. Per capita income as of June 30, 2010 was \$40,806, an increase of 17% over what was reported for June 30, 2008.

## **FINANCIAL INQUIRIES**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Chief Financial Officer, 801 Crawford Street, Portsmouth, VA 23704.



## **Basic Financial Statements**

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**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit A**
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
<b>Assets:</b>				
Current assets:				
Cash and temporary investments (note 3)	\$ 131,055,030	50,404,243	181,459,273	48,340,781
Cash with fiscal agent (note 3)	-	-	-	509,246
Restricted cash and temporary investments (note 3)	5,226,491	20,238,529	25,465,020	-
Receivables (net of allowance for uncollectibles):				
Taxes	13,245,003	-	13,245,003	-
Accounts	9,161,958	9,550,348	18,712,306	113,762
Other	-	-	-	19,633
Internal balances (note 10)	3,000,618	(3,000,618)	-	-
Due from primary government (note 10)	-	-	-	598,424
Due from component units (note 10)	80,837	-	80,837	-
Due from other governments (note 11)	15,149,819	136,565	15,286,384	3,700,907
Prepaid items	2,223	-	2,223	-
Inventory of supplies	644,456	551,316	1,195,772	758,738
Notes receivable (note 12)	4,152	-	4,152	-
Total current assets	177,570,587	77,880,383	255,450,970	54,041,491
Noncurrent assets:				
Other assets	3,869,960	1,153,606	5,023,566	1,732,785
Property held for resale	-	-	-	10,354,003
Capital assets (note 4):				
Land	17,430,801	15,348,574	32,779,375	7,330,864
Site improvements	2,239,871	-	2,239,871	-
Infrastructure	488,807,198	-	488,807,198	-
Buildings	217,311,714	25,426,246	242,737,960	73,775,844
Intangibles	888,688	-	888,688	422,270
Improvements other than buildings	-	172,052,669	172,052,669	-
Machinery, furniture, and equipment	44,412,362	19,963,581	64,375,943	23,155,840
Construction in progress	140,737,273	101,415,806	242,153,079	16,405,610
Total capital assets	911,827,907	334,206,876	1,246,034,783	121,090,428
Less accumulated depreciation	(450,418,489)	(97,525,906)	(547,944,395)	(43,747,489)
Total capital assets, net	461,409,418	236,680,970	698,090,388	77,342,939
Total noncurrent assets	465,279,378	237,834,576	703,113,954	89,429,727
Total assets	\$ 642,849,965	315,714,959	958,564,924	143,471,218

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Statement of Net Assets**  
**June 30, 2011**

**Exhibit A, Continued**

	Primary Government			
			Total	Component Units
	Governmental Activities	Business-Type Activities		
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	\$ 7,893,587	871,307	8,764,894	13,841,901
Construction payable	-	2,560,741	2,560,741	-
Accrued interest payable	5,279,405	2,202,631	7,482,036	212,595
Deposits	219,390	1,465,669	1,685,059	2,600
Due to other governments (note 11)	17,928	-	17,928	18,434
Due to primary government (note 10)	-	-	-	80,836
Due to component units (note 10)	598,424	-	598,424	-
Unearned revenues (note 12)	4,152	53,539	57,691	-
Claims payable (note 15)	3,969,416	-	3,969,416	723,597
Compensated absences (note 5)	4,663,628	625,961	5,289,589	1,615,000
General obligation and revenue bonds, net (note 5)	8,790,002	4,728,387	13,518,389	-
Obligations under capital leases (notes 5 and 6)	2,782,389	681,478	3,463,867	670,048
General obligation notes payable (note 5)	431,219	-	431,219	-
Literary loans (note 5)	375,000	-	375,000	-
Total current liabilities	35,024,540	13,189,713	48,214,253	17,165,011
Noncurrent liabilities:				
Claims payable (note 15)	9,983,336	-	9,983,336	1,647,401
Arbitrage liability	39,503	-	39,503	-
Grants payable	-	-	-	80,000
Other post employment benefit obligation (note 8)	38,797,004	4,782,407	43,579,411	
Compensated absences (note 5)	2,772,560	87,392	2,859,952	3,400,482
General obligation and revenue bonds, net (note 5)	255,035,820	121,103,514	376,139,334	-
Obligations under capital leases (notes 5 and 6)	14,471,249	1,892,542	16,363,791	5,213,816
General obligation notes payable (note 5)	49,778,364	-	49,778,364	-
Landfill closure and postclosure care (notes 5 and 13)	-	6,589,612	6,589,612	-
Literary loans (note 5)	1,500,000	-	1,500,000	-
Net pension obligation (notes 5 and 8)	-	-	-	113,686
Total noncurrent liabilities	372,377,836	134,455,467	506,833,303	10,455,385
Total liabilities	407,402,376	147,645,180	555,047,556	27,620,396
<b>Net assets:</b>				
Invested in capital assets, net of related debt	186,101,165	128,135,654	314,236,819	71,459,075
Restricted for:				
Capital projects	1,628,423	-	1,628,423	509,246
Behavioral health services	2,374,681	-	2,374,681	-
Grants and donations	8,071,151	-	8,071,151	-
Other purposes:				
Expendable	2,347,255	-	2,347,255	-
Nonependable	1,000,000	-	1,000,000	-
Unrestricted	33,924,914	39,934,125	73,859,039	43,882,501
Total net assets	235,447,589	168,069,779	403,517,368	115,850,822
Total liabilities and net assets	\$ 642,849,965	315,714,959	958,564,924	143,471,218

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Statement of Activities**  
**Year ended June 30, 2011**

**Exhibit B**

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary Government:</b>								
<b>Governmental:</b>								
General government	\$ 28,573,377	1,891,508	13,115,162	-	(13,566,707)	-	(13,566,707)	-
Judicial	20,042,432	708,180	10,801,387	-	(8,532,865)	-	(8,532,865)	-
Public safety	62,543,317	1,673,586	7,293,570	-	(53,576,161)	-	(53,576,161)	-
Public works	20,665,966	6,880,735	12,630,732	560,006	(608,493)	-	(608,493)	-
Health and welfare	38,261,597	538,388	30,603,644	-	(7,119,565)	-	(7,119,565)	-
Parks, recreational and cultural	12,333,047	1,302,264	1,062,952	-	(9,977,831)	-	(9,977,831)	-
Community development	7,738,435	518,730	1,562,299	1,392,304	(4,265,102)	-	(4,265,102)	-
Education	50,591,187	-	168,107	1,392,246	(49,030,834)	-	(49,030,834)	-
Interest on long-term debt	13,258,680	-	-	-	(13,258,680)	-	(13,258,680)	-
Total governmental activities	254,012,038	13,513,391	77,217,853	3,344,556	(159,936,238)	-	(159,936,238)	-
<b>Business-Type:</b>								
Public Utility	21,142,197	39,910,309	-	-	-	18,768,112	18,768,112	-
Golf	2,322,045	1,305,030	-	-	-	(1,017,015)	(1,017,015)	-
Port Facility and Economic Development	46,118	-	-	-	-	(46,118)	(46,118)	-
Parking Authority	1,582,680	1,060,760	-	-	-	(521,920)	(521,920)	-
Waste Management	13,576,322	14,027,983	680,000	-	-	1,131,561	1,131,561	-
Total business-type activities	38,663,462	56,304,082	680,000	-	-	18,314,620	18,314,620	-
Total primary government	292,681,500	69,817,473	77,897,853	3,344,556	(159,936,238)	18,314,620	(141,621,618)	-
<b>Component Units:</b>								
School Board	156,308,340	2,260,880	47,395,201	-	-	-	-	(106,652,259)
Economic Development Authority	661,740	135,382	-	-	-	-	-	(526,358)
Port and Industrial Commission	988,140	300	1,290,000	-	-	-	-	301,860
Total component units	157,958,220	2,396,562	48,685,201	-	-	-	-	(106,876,757)
General Revenues:								
Taxes:								
General property taxes				\$ 115,291,349	-	115,291,349	115,291,349	-
Business and occupational license taxes				5,745,579	-	-	-	-
Restaurant food taxes				6,249,521	-	6,249,521	6,249,521	-
Sales and Use Tax				6,009,354	-	6,009,354	6,009,354	-
Telecommunications				9,842,903	-	9,842,903	9,842,903	-
Other local taxes				7,047,017	-	7,047,017	7,047,017	-
Utility taxes				7,709,251	-	7,709,251	7,709,251	-
Premium on bonds issued				-	-	-	-	-
Grants and contributions not restricted to specific programs				-	-	-	-	-
Investment earnings				168,418	106,869	275,287	275,287	-
Net gain on disposal of capital assets				-	(69,991)	(69,991)	(69,991)	-
Miscellaneous				2,302,921	710,744	3,919,665	1,486,410	-
Payment from primary government				-	-	-	48,256,486	-
Transfers				-	-	-	-	-
Total general revenues and transfers				7,106,789	(7,106,789)	-	-	-
				167,473,102	(6,353,167)	161,119,935	115,482,537	-
Change in net assets				7,536,864	11,961,453	19,498,317	8,605,780	-
Net assets, beginning of year, as restated				227,910,725	156,108,326	384,019,051	107,245,042	-
Net assets, end of year				\$ 235,447,589	168,069,779	403,517,368	115,850,822	-

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit C**
**Balance Sheet**
**Governmental Funds**
**June 30, 2011**

	General	Capital Improvements	Other Governmental Funds	Total
<b>Assets:</b>				
Cash and temporary investments (note 3)	\$ 26,572,920	55,255,069	15,160,199	96,988,188
Restricted cash and temporary investments (note 3)	140,677	5,085,814	-	5,226,491
Receivables (net of allowance for uncollectibles):				
Taxes	13,245,003	-	-	13,245,003
Accounts	5,671,055	-	548,750	6,219,805
Due from other funds (note 10)	2,186,857	-	-	2,186,857
Due from component units (note 10)	80,837	-	-	80,837
Due from other governments (note 11)	11,514,718	-	3,635,101	15,149,819
Prepaid items	-	-	2,223	2,223
Inventory of supplies	76,610	-	-	76,610
Advances receivable	2,584,125	-	-	2,584,125
Notes receivable (note 12)	-	4,152	-	4,152
<b>Total assets</b>	<b>\$ 62,072,802</b>	<b>60,345,035</b>	<b>19,346,273</b>	<b>141,764,110</b>
<b>Liabilities:</b>				
Accounts payable	\$ 3,547,006	794,871	2,322,104	6,663,981
Deposits	16,914	202,476	-	219,390
Due to other governments (note 11)	-	-	17,928	17,928
Due to other funds (note 10)	58,295	-	1,712,069	1,770,364
Due to component units (note 10)	-	-	598,424	598,424
Deferred revenues (note 12)	6,920,749	4,152	240,736	7,165,637
<b>Total liabilities</b>	<b>10,542,964</b>	<b>1,001,499</b>	<b>4,891,261</b>	<b>16,435,724</b>
<b>Fund balances:</b>				
Nonspendable fund balances	2,660,735	-	1,002,223	3,662,958
Restricted fund balances	140,677	59,343,536	12,793,087	72,277,300
Committed fund balances	6,580,959		689,701	7,270,660
Assigned fund balances	60,627	-	-	60,627
Unassigned	42,086,840	-	(29,999)	42,056,841
<b>Total fund balances</b>	<b>51,529,838</b>	<b>59,343,536</b>	<b>14,455,012</b>	<b>125,328,386</b>
<b>Total liabilities and fund balances</b>	<b>\$ 62,072,802</b>	<b>60,345,035</b>	<b>19,346,273</b>	<b>141,764,110</b>

See accompanying notes to basic financial statements.

(continued)

**CITY OF PORTSMOUTH, VIRGINIA****Exhibit C, Continued****Balance Sheet - Reconciliation of the Balance Sheet  
to the Statement of Net Assets****Governmental Funds****June 30, 2011**

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances for governmental funds	\$ 125,328,386
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	17,415,753
Site improvements	2,239,871
Infrastructure	488,807,198
Buildings	216,618,631
Machinery, furniture and equipment	20,833,666
Construction in progress	140,737,273
Accumulated depreciation	(434,018,742) 452,633,650

Other assets (bond issuance costs) used in governmental activities are not financial resources and therefore are not reported in the funds.

3,665,973

Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenue in the funds.

7,161,485

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Those liabilities consist of:

Compensated absences	(7,089,771)
Net pension asset	203,987
Other post employment benefit obligation	(37,283,482)
Accrued interest payable	(5,279,405)
General obligation bonds	(263,825,822)
Obligations under capital leases	(8,813,873)
Obligations under notes payable	(50,209,583)
Arbitrage liability	(39,503)
Literary loans	(1,875,000) (374,212,452)

Internal service funds are used by the City to charge costs of certain activities to individual funds. The assets and liabilities of internal service funds are reported as components of other governmental funds.

20,870,547

Net assets of governmental activities	\$ 235,447,589
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See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit D**
**Statement of Revenues, Expenditures, and Changes in Fund Balances**
**Governmental Funds**
**Year ended June 30, 2011**

	General	Capital Improvements	Other Governmental Funds	Total
<b>Revenues:</b>				
Taxes	\$ 159,191,656	-	-	159,191,656
Intergovernmental	35,974,232	1,952,252	38,713,091	76,639,575
Charges for services	2,497,572	-	6,970,906	9,468,478
Investment income	12,310	99,126	44,772	156,208
Recovered costs	4,085,061	-	-	4,085,061
Fines and forfeitures	572,821	-	-	572,821
Licenses and permits	1,117,152	-	-	1,117,152
Use of property	1,928,407	-	232,274	2,160,681
Miscellaneous	3,882,300	296,999	752,103	4,931,402
<b>Total revenues</b>	<b>209,261,511</b>	<b>2,348,377</b>	<b>46,713,146</b>	<b>258,323,034</b>
<b>Expenditures:</b>				
Current:				
General government	15,540,017	-	171,603	15,711,620
Nondepartmental	9,975,985	-	-	9,975,985
Judicial	17,662,443	-	1,283,051	18,945,494
Public safety	59,404,232	-	1,042,479	60,446,711
Public works	14,145,375	-	1,888,505	16,033,880
Health and welfare	1,147,052	-	36,645,012	37,792,064
Parks, recreational, and cultural	10,106,877	-	1,501,861	11,608,738
Community development	4,700,072	-	2,475,228	7,175,300
Education	48,171,651	-	-	48,171,651
Debt service	22,175,370	-	-	22,175,370
Capital outlay	-	47,019,455	11,634,200	58,653,655
<b>Total expenditures</b>	<b>203,029,074</b>	<b>47,019,455</b>	<b>56,641,939</b>	<b>306,690,468</b>
<b>Revenues over (under) expenditures</b>	<b>6,232,437</b>	<b>(44,671,078)</b>	<b>(9,928,793)</b>	<b>(48,367,434)</b>
<b>Other financing sources (uses):</b>				
Transfers from other funds (note 10)	8,145,550	7,383,672	6,588,011	22,117,233
Transfers to other funds (note 10)	(11,854,825)	-	(4,637,943)	(16,492,768)
Premium on bonds issued (note 5)	3,153,792	1,000,000	-	4,153,792
Issuance of Capital Leases (note 5)	476,812	-	-	476,812
Issuance of general obligation bonds (note 5)	43,825,000	24,000,000	-	67,825,000
Refunding payments made to escrow agent	(46,778,674)	-	-	(46,778,674)
<b>Total other financing sources (uses)</b>	<b>(3,032,345)</b>	<b>32,383,672</b>	<b>1,950,068</b>	<b>31,301,395</b>
<b>Net change in fund balances</b>	<b>3,200,092</b>	<b>(12,287,406)</b>	<b>(7,978,725)</b>	<b>(17,066,039)</b>
<b>Fund balances, beginning of year, as restated</b>	<b>48,329,746</b>	<b>71,630,942</b>	<b>22,433,737</b>	<b>142,394,425</b>
<b>Fund balances, end of year</b>	<b>\$ 51,529,838</b>	<b>59,343,536</b>	<b>14,455,012</b>	<b>125,328,386</b>

See accompanying notes to basic financial statements.

(continued)

**CITY OF PORTSMOUTH, VIRGINIA****Exhibit D, Continued****Statement of Revenues, Expenditures, and Changes in Fund Balances - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities****Governmental Funds****Year ended June 30, 2011**

Amounts reported for governmental activities in the statement of activities are different because:

<u>Net change in fund balances - total governmental funds</u>	<u>\$ (17,066,039)</u>
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets and loss on disposal of assets are not reported in the governmental funds but are reflected in the statement of activities.

Loss on disposal of assets	(118,776)
Purchases of assets	57,339,639
Depreciation expense	(8,378,202) 48,842,661

The issuance of long term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from debt issued	(72,455,604)
Principal payments of debt	9,843,352
Payments to escrow agent	46,778,674
Bond issuance costs	736,957
Amortization expense	(253,017) (15,349,638)

Some revenues in the statement of activities do not provide the use of current financial resources and therefore, are not reported as revenues in the governmental funds.	(1,102,423)
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Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in arbitration liability	14,751
Change in compensated absences	197,286
Change in other post employment benefit obligation	(9,360,333)
Change in net pension asset	(1,147,220)
Change in accrued interest	(1,425,353) (11,720,869)

Internal service funds are used by the City to charge costs of certain activities to individual funds. The net revenue of internal service funds is reported as a component of governmental funds.	3,933,172
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<u>Change in net assets of governmental activities</u>	<u>\$ 7,536,864</u>
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See accompanying notes to basic financial statements.

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit E-1

**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
<b>Assets:</b>					
Current assets:					
Cash and temporary investments (note 3)	\$ 42,120,014	80,523	8,203,706	50,404,243	34,066,842
Restricted cash and temporary investments (note 3)	19,046,878	377,145	814,506	20,238,529	-
Accounts receivable (net of allowance for uncollectibles)	6,827,404	14,322	2,708,622	9,550,348	2,942,153
Due from other funds (note 10)	58,295	-	-	58,295	-
Due from other governments	136,565	-	-	136,565	-
Inventory of supplies, at cost	551,316	-	-	551,316	567,846
<b>Total current assets</b>	<b>68,740,472</b>	<b>471,990</b>	<b>11,726,834</b>	<b>80,939,296</b>	<b>37,576,841</b>
Noncurrent assets:					
Capital assets (note 4):					
Land	324,079	679,680	14,344,815	15,348,574	15,048
Buildings	692,687	18,667,910	6,065,649	25,426,246	693,083
Intangible Assets	-	-	-	-	888,688
Improvements other than buildings	169,748,184	260,636	2,043,849	172,052,669	-
Machinery, furniture and equipment	11,254,606	486,889	8,222,086	19,963,581	23,578,696
Construction in progress	101,415,806	-	-	101,415,806	-
Total capital assets	283,435,362	20,095,115	30,676,399	334,206,876	25,175,515
Less accumulated depreciation	(75,638,232)	(10,309,005)	(11,578,669)	(97,525,906)	(16,399,747)
<b>Total capital assets, net</b>	<b>207,797,130</b>	<b>9,786,110</b>	<b>19,097,730</b>	<b>236,680,970</b>	<b>8,775,768</b>
Other assets	1,020,394	41,852	91,360	1,153,606	-
<b>Total noncurrent assets</b>	<b>208,817,524</b>	<b>9,827,962</b>	<b>19,189,090</b>	<b>237,834,576</b>	<b>8,775,768</b>
<b>Total assets</b>	<b>\$ 277,557,996</b>	<b>10,299,952</b>	<b>30,915,924</b>	<b>318,773,872</b>	<b>46,352,609</b>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	\$ 296,018	18,013	557,276	871,307	1,229,606
Construction payable	2,560,741	-	-	2,560,741	-
Accrued interest payable	2,010,834	129,267	62,530	2,202,631	-
Deposits	1,455,669	-	10,000	1,465,669	-
Due to other funds (note 10)	-	214,964	259,824	474,788	-
Unearned revenues (note 12)	-	53,539	-	53,539	-
Compensated absences (note 5)	379,664	21,776	224,521	625,961	346,417
Advances payable	-	196,125	-	196,125	-
General obligation bonds (note 5)	4,369,223	305,761	53,403	4,728,387	-
Obligations under capital leases (notes 5 and 6)	-	-	681,478	681,478	1,709,319
Claims payable (note 15)	-	-	-	-	3,969,416
<b>Total current liabilities</b>	<b>11,072,149</b>	<b>939,445</b>	<b>1,849,032</b>	<b>13,860,626</b>	<b>7,254,758</b>
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	9,983,336
Other post employment benefit obligation (note 8)	2,855,942	121,173	1,805,292	4,782,407	1,513,522
Compensated absences	3,807	9,574	74,011	87,392	-
Obligations under capital leases (notes 5 and 6)	-	-	1,892,542	1,892,542	6,730,446
Landfill closure and postclosure liability (notes 5 and 13)	-	-	6,589,612	6,589,612	-
Advances payable	-	2,388,000	-	2,388,000	-
General obligation bonds (note 5)	109,001,612	5,692,716	6,409,186	121,103,514	-
<b>Total noncurrent liabilities</b>	<b>111,861,361</b>	<b>8,211,463</b>	<b>16,770,643</b>	<b>136,843,467</b>	<b>18,227,304</b>
<b>Total liabilities</b>	<b>122,933,510</b>	<b>9,150,908</b>	<b>18,619,675</b>	<b>150,704,093</b>	<b>25,482,062</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	113,955,555	4,118,978	10,061,121	128,135,654	336,003
Restricted for:					
Capital projects	-	-	-	-	-
Unrestricted (deficit)	40,668,931	(2,969,934)	2,235,128	39,934,125	20,534,544
<b>Total net assets</b>	<b>154,624,486</b>	<b>1,149,044</b>	<b>12,296,249</b>	<b>168,069,779</b>	<b>20,870,547</b>
<b>Total liabilities and net assets</b>	<b>\$ 277,557,996</b>	<b>10,299,952</b>	<b>30,915,924</b>	<b>318,773,872</b>	<b>46,352,609</b>

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit E-2**
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**
**Proprietary Funds**
**Year ended June 30, 2011**

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
<b>Operating revenues:</b>					
Charges for services	\$ 39,856,970	1,060,760	15,243,013	56,160,743	36,859,916
Intergovernmental revenue	-	-	680,000	680,000	-
Use of property	53,339	-	90,000	143,339	-
Other	426,180	281,197	9,367	716,744	796,630
<b>Total operating revenues</b>	<b>40,336,489</b>	<b>1,341,957</b>	<b>16,022,380</b>	<b>57,700,826</b>	<b>37,656,546</b>
<b>Operating expenses:</b>					
Personnel services	6,761,530	394,673	4,503,065	11,659,268	5,145,623
Contractual services	1,807,409	72,909	6,648,437	8,528,755	3,104,312
Supplies and materials	2,803,017	57,667	360,246	3,220,930	3,824,108
Utilities	1,298,334	127,564	112,514	1,538,412	185,626
Internal charges	941,053	60,613	1,657,176	2,658,842	-
Claims, settlements, and refunds	-	-	-	-	17,901,609
Insurance premiums	-	-	-	-	1,022,383
Payments in lieu of taxes	1,008,568	-	-	1,008,568	-
Rent	-	-	77,458	77,458	-
Depreciation and amortization	4,684,676	463,380	1,011,124	6,159,180	2,170,412
Bad debt expense	-	-	-	-	-
Other	911,165	138,365	1,254,642	2,304,172	859,773
<b>Total operating expenses</b>	<b>20,215,752</b>	<b>1,315,171</b>	<b>15,624,662</b>	<b>37,155,585</b>	<b>34,213,846</b>
<b>Operating income (loss)</b>	<b>20,120,737</b>	<b>26,786</b>	<b>397,718</b>	<b>20,545,241</b>	<b>3,442,700</b>
<b>Nonoperating revenues (expenses):</b>					
Investment income	103,118	507	3,244	106,869	12,210
Gain (loss) on disposal of capital assets	(99,142)	-	29,151	(69,991)	60,120
Interest expense and fiscal charges	(1,935,013)	(267,509)	(319,923)	(2,522,445)	(55,614)
<b>Net nonoperating revenues (expenses)</b>	<b>(1,931,037)</b>	<b>(267,002)</b>	<b>(287,528)</b>	<b>(2,485,567)</b>	<b>16,716</b>
Net income (loss) before transfers	18,189,700	(240,216)	110,190	18,059,674	3,459,416
Transfers from other funds (note 10)	125,559	384,135	912,730	1,422,424	2,973,756
Transfers to other funds (note 10)	(7,500,000)	(20,645)	-	(7,520,645)	(2,500,000)
Change in net assets	10,815,259	123,274	1,022,920	11,961,453	3,933,172
<b>Net assets, beginning of year as restated (note 17)</b>	<b>143,809,227</b>	<b>1,025,770</b>	<b>11,273,329</b>	<b>156,108,326</b>	<b>16,937,375</b>
<b>Net assets, end of year</b>	<b>\$ 154,624,486</b>	<b>1,149,044</b>	<b>12,296,249</b>	<b>168,069,779</b>	<b>20,870,547</b>

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit E-3**
**Statement of Cash Flows**
**Proprietary Funds**
**Year ended June 30, 2011**

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ 40,683,919	1,339,683	16,231,877	58,255,479	35,110,616
Payments to suppliers	(8,250,778)	(479,573)	(9,371,242)	(18,101,593)	(27,896,825)
Payments to employees	(6,116,177)	(362,510)	(4,108,452)	(10,587,139)	(4,843,721)
<b>Net cash provided by operating activities</b>	<b>26,316,964</b>	<b>497,600</b>	<b>2,752,183</b>	<b>29,566,747</b>	<b>2,370,070</b>
<b>Cash flows from noncapital financing activities:</b>					
Transfers in	-	384,135	912,730	1,296,865	-
Transfers out	(7,500,000)	(20,645)	-	(7,520,645)	424,679
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(7,500,000)</b>	<b>363,490</b>	<b>912,730</b>	<b>(6,223,780)</b>	<b>424,679</b>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition and construction of capital assets	(21,756,367)	-	-	(21,756,367)	(2,580,268)
Proceeds from sale of capital assets	-	-	50,176	50,176	60,120
Transfers out	-	-	-	-	49,077
General Fund capital contribution received	125,559	-	-	125,559	-
Cost of issuance	(92,571)	-	-	(92,571)	-
Proceeds from long-term debt	8,584,022	-	808,259	9,392,281	-
Principal paid on long-term debt	(12,704,303)	(466,125)	(513,565)	(13,683,993)	4,529,863
Payment to other funds	-	(161,675)	-	(161,675)	-
Interest paid	(1,519,110)	(276,711)	(345,748)	(2,141,569)	(55,614)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(27,362,770)</b>	<b>(904,511)</b>	<b>(878)</b>	<b>(28,268,159)</b>	<b>2,003,178</b>
<b>Cash flows from investing activities:</b>					
Interest received	103,118	507	3,244	106,869	12,210
<b>Net cash provided by investing activities</b>	<b>103,118</b>	<b>507</b>	<b>3,244</b>	<b>106,869</b>	<b>12,210</b>
Net increase (decrease) in cash and temporary investments	(8,442,688)	(42,914)	3,667,279	(4,818,323)	4,810,137
Cash and temporary investments, beginning of year	69,609,580	500,582	5,350,933	75,461,095	29,256,705
Cash and temporary investments, end of year	<b>\$ 61,166,892</b>	<b>457,668</b>	<b>9,018,212</b>	<b>70,642,772</b>	<b>34,066,842</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</b>					
Operating income	\$ 20,120,737	26,786	397,718	20,545,241	3,442,700
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>					
Depreciation and amortization	4,684,676	463,380	1,011,124	6,159,180	2,170,412
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:					
Accounts receivable	(113,544)	(59)	113,822	219	(2,694,600)
Inventory of supplies	113,893	-	-	113,893	5,029
Accounts payable	404,876	(22,454)	(185,743)	196,679	562,752
Deposits	460,973	-	-	460,973	-
Unearned revenues	-	(2,215)	-	(2,215)	-
Compensated absences	(18,432)	3,302	(14,242)	(29,372)	(10,750)
Landfill closure and postclosure liability	-	-	1,020,650	1,020,650	-
Other post employment benefit obligation	663,785	28,860	408,854	1,101,499	312,652
Claims payable	-	-	-	-	(1,418,125)
<b>Net cash provided by operating activities</b>	<b>\$ 26,316,964</b>	<b>497,600</b>	<b>2,752,183</b>	<b>29,566,747</b>	<b>2,370,070</b>

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA****Exhibit F-1****Statement of Fiduciary Net Assets****Fiduciary Funds****June 30, 2011**

	Pension Trusts	Agency Special Welfare Fund
<b>Assets:</b>		
Cash and temporary investments (note 3)	\$ 2,068,485	90,926
Investments (note 3):		
Common stock	64,208,988	-
Corporate bonds	30,209,303	-
Total assets	96,486,776	90,926
<b>Liabilities - Cash held for others</b>		
	-	90,926
<b>Net assets -</b>		
Net assets held in trust for pension benefits	\$ 96,486,776	-

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA****Exhibit F-2****Statement of Changes in Fiduciary Net Assets****Fiduciary Funds - Pension Trust Funds****Year ended June 30, 2011**

## Additions:

Contributions	\$ 15,955,719
Investment income -	
Net decrease in the fair value of investments	16,979,051
Less investment expense	(296,499)
Net investment income	16,682,552
Total additions	32,638,271
Deductions - benefits and refunds	24,868,256
Change in net assets	7,770,015
Net plan assets held in trust for pension benefits, beginning of year	88,716,761
Net plan assets held in trust for pension benefits, end of year	\$ 96,486,776

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit G-1**
**Statement of Net Assets**
**Component Units**
**June 30, 2011**

	School Board	Economic Development Authority	Port and Industrial Commission	Total
<b>Assets:</b>				
Current assets:				
Cash and temporary investments (note 3)	\$ 46,990,846	870,359	479,576	48,340,781
Cash with fiscal agent (note 3)	509,246	-	-	509,246
Receivables (net of allowance for uncollectibles)				
Accounts	113,762	-	-	113,762
Other	-	19,633	-	19,633
Due from other governments	3,700,907	-	-	3,700,907
Due from primary government	598,424		-	598,424
Inventory	758,738	-	-	758,738
<b>Total current assets</b>	<b>52,671,923</b>	<b>889,992</b>	<b>479,576</b>	<b>54,041,491</b>
Noncurrent assets:				
Property held for resale	-	10,146,755	207,248	10,354,003
Capital assets (note 4):				
Land	6,125,204	1,205,660	-	7,330,864
Buildings	73,775,844	-	-	73,775,844
Machinery, furniture, and equipment	23,155,840	-	-	23,155,840
Intangible	422,270	-	-	422,270
Construction in progress	16,405,610	-	-	16,405,610
<b>Total capital assets</b>	<b>119,884,768</b>	<b>1,205,660</b>	<b>-</b>	<b>121,090,428</b>
Less accumulated depreciation	(43,747,489)	-	-	(43,747,489)
<b>Total capital assets, net</b>	<b>76,137,279</b>	<b>1,205,660</b>	<b>-</b>	<b>77,342,939</b>
Other assets	587,453	75,000	1,070,332	1,732,785
<b>Total noncurrent assets</b>	<b>76,724,732</b>	<b>11,427,415</b>	<b>1,277,580</b>	<b>89,429,727</b>
<b>Total assets</b>	<b>\$ 129,396,655</b>	<b>12,317,407</b>	<b>1,757,156</b>	<b>143,471,218</b>

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit G-1, Continued**
**Statement of Net Assets**
**Component Units**
**June 30, 2011**

	School Board	Economic Development Authority	Port and Industrial Commission	Total
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	\$ 13,824,930	15,442	1,529	13,841,901
Accrued interest payable	212,595	-	-	212,595
Deposits	-	2,600	-	2,600
Due to Commonwealth of Virginia	18,434	-	-	18,434
Due to primary government (note 10)	80,836	-	-	80,836
Claims payable (note 15)	723,597	-	-	723,597
Compensated absences (note 5)	1,615,000	-	-	1,615,000
Obligations under capital leases (note 5)	670,048	-	-	670,048
<b>Total current liabilities</b>	<b>17,145,440</b>	<b>18,042</b>	<b>1,529</b>	<b>17,165,011</b>
Noncurrent liabilities:				
Claims payable (note 15)	1,647,401	-	-	1,647,401
Compensated absences (note 5)	3,400,482	-	-	3,400,482
Grant Payable	-	80,000	-	80,000
Obligations under capital leases (notes 5 and 7)	5,213,816	-	-	5,213,816
Net pension obligation (notes 5 and 8)	113,686	-	-	113,686
<b>Total noncurrent liabilities</b>	<b>10,375,385</b>	<b>80,000</b>	<b>-</b>	<b>10,455,385</b>
<b>Total liabilities</b>	<b>27,520,825</b>	<b>98,042</b>	<b>1,529</b>	<b>27,620,396</b>
Net assets:				
Invested in capital assets, net of related debt	70,253,415	1,205,660	-	71,459,075
Restricted for capital projects	509,246	-	-	509,246
Unrestricted	31,113,169	11,013,705	1,755,627	43,882,501
<b>Total net assets</b>	<b>101,875,830</b>	<b>12,219,365</b>	<b>1,755,627</b>	<b>115,850,822</b>
<b>Total liabilities and net assets</b>	<b>\$ 129,396,655</b>	<b>12,317,407</b>	<b>1,757,156</b>	<b>143,471,218</b>

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

**Statement of Activities**

**Component Units**

**Year ended June 30, 2011**

**Exhibit G-2**

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	School Board	Economic Development Authority	Industrial Commission
<b>School Board:</b>							
Administration	\$ 4,890,909	-	-	-	(4,890,909)	-	-
Instruction	116,243,716	67,813	42,216,751	-	(73,959,152)	-	(73,959,152)
Attendance and health services	3,280,521	157,747	-	-	(3,122,774)	-	(3,122,774)
Pupil transportation	6,396,152	235,094	-	-	(6,161,058)	-	(6,161,058)
Operations and maintenance	15,072,405	51,336	-	-	(15,021,069)	-	(15,021,069)
Information technology	3,179,565	-	-	-	(3,179,565)	-	(3,179,565)
Food services	7,011,115	1,748,890	5,178,450	-	(83,775)	-	(83,775)
Interest on long-term debt	233,957	-	-	-	(233,957)	-	(233,957)
Total School Board	156,308,340	2,260,880	47,395,201	-	(106,632,259)	-	(106,632,259)
<b>Economic Development Authority:</b>							
Economic Development Authority operations	661,740	135,382	-	-	(526,358)	-	(526,358)
Total Economic Development Authority	661,740	135,382	-	-	(526,358)	-	(526,358)
<b>Port and Industrial Commission -</b>							
Port and Industrial Commission operations	988,440	300	1,290,000	-	-	-	301,860
Total Port and Industrial Commission	988,440	300	1,290,000	-	-	-	301,860
Total component units	157,958,520	2,396,562	48,685,201	-	(106,632,259)	(526,358)	301,860
General Revenues:							
Payment from primary government			\$ 48,171,651	84,835	-	48,256,486	
Grants and contributions not restricted to specific programs			65,661,742	-	-	65,661,742	
Investment earnings			55,597	7,197	15,105	77,899	
Miscellaneous			1,260,839	225,571	-	1,486,410	
Total general revenues			115,149,829	317,603	15,105	115,482,537	
Change in net assets			8,497,570	(208,755)	316,965	8,605,780	
Net assets, beginning of year			93,378,260	12,428,120	1,438,662	107,245,042	
Net assets, end of year			\$ 101,875,830	12,219,365	1,755,627	115,850,822	

See accompanying notes to basic financial statements.

**Notes to Basic Financial Statements****June 30, 2011**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Portsmouth, Virginia (the City) was established by act of the Virginia General Assembly in 1858. It is a political subdivision of the Commonwealth of Virginia operating under the council-manager form of government. City Council consists of a mayor and six other council members. The City is not part of a county and has taxing powers subject to statewide restrictions and tax limits.

The City provides a full range of municipal services including police and fire, sanitation, health and social services, public improvements, planning and zoning, general administrative services, education, and water and sewer systems.

The following is a summary of the more significant policies:

**A. Financial Reporting Entity**

The City's financial reporting entity is defined and its financial statements are presented in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement defines the distinction between the City as a primary government and its related entities. The financial reporting entity consists of the primary government and its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability of the primary government to impose its will, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The primary government may also be financially accountable if the component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board. As such, the City of Portsmouth School Board (School Board), the Economic Development Authority of the City of Portsmouth, Virginia (Economic Development Authority or the EDA), and the Portsmouth Port and Industrial Commission (the Commission) are reported as separate and discretely presented component units in the City's reporting entity. The Portsmouth Parking Authority (Parking Authority) is presented as a blended component unit of the City. The primary government is hereafter referred to as the "City" and the reporting entity, which includes the City and its component units, is hereafter referred to as the "Reporting Entity".

As required by generally accepted accounting principles, the accompanying financial statements include all activities of the City, such as general operation and support services. The School Board's governmental operations and the proprietary operations of the Economic Development Authority and the Portsmouth Port and Industrial Commission are separately disclosed on Exhibit G-2.

***Discretely Presented Component Units***

The component unit columns in the basic financial statements include the financial data of the City's three discretely presented component units. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. These component units are fiscally dependent on the City and provide services primarily to the citizens of Portsmouth. The School Board has an elected board, however the primary government may impose its will, as all appropriations must be approved by City Council. The Economic Development Authority and the Portsmouth Port and Industrial Commission have boards appointed by the primary government. The Economic Development Authority was created to facilitate economic development activity in the community that would provide financial benefits to the City of Portsmouth. The Portsmouth Port and Industrial Commission was created to own and operate the port facilities in 1954. All component units have a June 30 year-end. A description of the discretely presented component units follows:

**Notes to Basic Financial Statements, Continued**

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1. The School Board operates the public education system in the City for grades kindergarten through twelve. Complete, audited financial statements for the School Board may be obtained as follows:

Portsmouth School Board  
Department of Business Affairs  
Third Floor, City Hall Building  
801 Crawford Street  
Portsmouth, Virginia 23704

2. The Economic Development Authority is authorized to acquire, own, lease, and dispose of properties to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The Economic Development Authority has only one fund. Complete, audited financial statements may be obtained as follows:

Economic Development Authority  
c/o Department of Economic Development  
200 High Street, Suite 200  
Portsmouth, Virginia 23704

3. The Portsmouth Port and Industrial Commission is authorized to acquire, own, lease, and dispose of properties in and around the various ports within the City to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The Portsmouth Port and Industrial Commission has only one fund. Complete, audited financial statements may be obtained as follows:

Portsmouth Port and Industrial Commission  
c/o Department of Economic Development  
200 High Street, Suite 200  
Portsmouth, Virginia 23704

***Blended Component Unit***

The Parking Authority is considered to be a blended component unit in the City's financial statements under the guidelines of GASB 61. The Parking Authority's total debt outstanding, including leases, is expected to be repaid entirely with resources of the City. Activities of blended component units are considered to be so intertwined with the City's that they are, in substance, part of the City's operations. The Parking Authority is fiscally dependent on the City. The Parking Authority's resources and services provided are almost entirely for the direct benefit of the primary government. The City Council appoints all of the members of the Board of Directors and appropriate funds annually to the Authority. Council can remove members at will, modify or approve the budget, set rates/fees, and hire or dismiss those persons responsible for the day-to-day operations of the Authority. The City and the Parking Authority have a financial benefit/burden relationship and management (below the level of the elected officials) of the City has operational responsibilities for the activities of the Parking Authority. The City is legally entitled to or can otherwise access the Authority's resources and is also obligated for the debt of the Authority. The Parking Authority's outstanding debt is expected to be repaid entirely with resources of the City. No distinction is made between the activities of the Parking Authority and the City. As a result, the Parking Authority is reported as an enterprise fund in the City's financial statements. Separately audited financial statements are not available for the Parking Authority.

**Notes to Basic Financial Statements, Continued****B. Basis of Presentation****Government-wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities are (a) reported by columns, and (b) reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that is otherwise being supported by general government revenues (property taxes, utility taxes, and other local taxes, etc.). The Statement of Activities reduces gross expenses (including depreciation) by directly related program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not specifically restricted to the various programs are reported as general revenues. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. Each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Major individual governmental funds and major individual enterprise funds, those comprising a significant portion of the City's financial activity, are reported in separate columns in the fund financial statements. The nonmajor funds are combined in a single column in the fund financial statements and detailed in the combining statements.

Internal service funds of the City (which traditionally provide services primarily to other funds of the government) are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, judicial, health and welfare, etc.).

The City's fiduciary funds are presented in the fund financial statements by type (pension trust funds and agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City.

***Governmental Fund Types***

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related

**Notes to Basic Financial Statements, Continued**

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liabilities are accounted for through governmental funds, except those accounted for in proprietary funds and similar trust funds.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund – Capital Improvements Fund – The Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The City reports the following nonmajor governmental funds:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of certain specific revenue sources that are restricted to expenditures for specified purposes.

Permanent Fund – Cemetery Fund – The Cemetery Fund is used to account for the sale of cemetery lots, perpetual care payments, and donations and legacies made for the care of cemetery lots. The principal of such funds shall not be expended for any purpose.

***Proprietary Fund Types***

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges for services, certain rental fees and recovered costs. Operating expenses include the cost of sales and services, administrative expenses, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph 7 of Statement No. 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989.

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City has two major enterprise funds: Public Utility Fund, which accounts for the utility activity provided to the City, and the Parking Authority, a blended component unit, which is responsible for the operation and maintenance of parking garages, parking lots, and all street parking meters for the City.

The nonmajor enterprise funds are: the Port Facility and Economic Development Fund which is used to account for the lease of a marine terminal facility to Universal Maritime and lease-purchase sale of certain land to the Virginia Port Authority; the Golf Fund, which accounts for

**Notes to Basic Financial Statements, Continued**

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ownership and operation of two golf courses; and the Waste Management Fund, which accounts for waste disposal services and operation of Craney Island landfill.

**Internal Service Funds** - Internal service funds are used to account for the financing of goods or services provided by one department to other departments or agencies of the City, or to some agencies external to the City, on a cost-reimbursement basis. The City has five nonmajor internal service funds: City Garage Fund, Information Technology Fund, Risk Management Fund, Health Insurance Fund and Other Post Employment Benefit Fund (OPEB).

***Fiduciary Fund Types***

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains pension trust and agency funds. The pension trust funds account for the assets of the City's retirement plans. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for assets held on behalf of Social Services Department clients. Fiduciary funds are not included in the government-wide financial statements.

**Reconciliation of Government-wide and Fund Financial Statements**

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds Balance Sheet and total net assets for governmental activities as shown on the government-wide Statement of Net Assets is presented in a schedule accompanying the governmental funds Balance Sheet. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, and the change in net assets for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances. The reconciliation differences stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements (i.e., Statement of Net Assets and Statement of Activities) are reported using a full economic resources measurement focus and the accrual basis of accounting and include all assets and liabilities associated with governmental and business-type activities. Assets and liabilities associated with fiduciary activities are included on the Statement of Fiduciary Net Assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The pension trust funds' contributions from members are recorded when the employer makes payroll deductions from plan members. Nonexchange transactions, in which the City either gives or receives value without directly receiving or giving equal value in exchange, include sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from sales taxes is recognized when the underlying exchange transaction takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

All governmental funds are accounted for using the current financial resources measurement focus wherein only current assets and current liabilities are included on the Balance Sheet in the fund statements and the focus is on the determination of, and changes in, financial position. Operating statements of governmental funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**Notes to Basic Financial Statements, Continued**

The governmental funds utilize the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual to eligibility criteria are met. Real estate and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowances for uncollectible amounts. Property taxes levied but not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utility companies and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the State or utility companies, which is generally in the month preceding receipt by the City, because they are generally not measurable until actually received. Licenses and permits, fines and forfeitures, charges for services (except those charges for services recognized when billed) and miscellaneous revenues (except interest on temporary investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Stormwater management fees are also recognized as revenue when earned. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt which is recorded when due.

The Agency Fund uses the accrual basis of accounting and does not measure the results of operations.

The accrual basis of accounting is followed by the proprietary funds and pension trust funds. Accordingly, their revenues are recognized when earned and expenses are recognized when they are incurred. Unbilled utility service receivables are recorded in the enterprise funds when earned.

**D. Property Taxes**

The two major sources of property taxes are described below:

***Real Estate Taxes***

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 on the estimated market value of the property. Real estate taxes become a lien on real property the first day of the levy year. The City, as required by state statute, follows the practice of reassessing all property annually. Real estate taxes are collected in equal quarterly payments due September 30, December 31, March 31 and June 30 and are considered delinquent after each due date. The real estate tax rate during 2011 was \$1.27 per \$100 of assessed value.

***Personal Property Taxes***

The City levies personal property taxes on motor vehicles and business and other tangible personal property. Personal property taxes do not create a lien on property. These levies are made each year as of January 1 with payment due the following June 5. Taxes on motor vehicles bought and sold after January 1 are prorated and the tax levies are adjusted. During the fiscal year, the personal property taxes reported as revenue are the adjusted levies less an allowance for uncollectibles. Personal property taxes are considered delinquent after the June 5 due date or, in the case of supplemental levies, thirty days after the taxes are levied and billed. The personal property tax rate for 2011, excluding machinery and tools, boats and recreational vehicles, was \$5.00 per \$100 of assessed value.

**Notes to Basic Financial Statements, Continued**

The personal property tax rate on machinery and tools, boats, mobile homes, and recreational vehicles was \$3.00, \$.50, \$1.24, and \$1.50 per \$100 of assessed value, respectively.

**E. Allowance for Uncollectibles**

Provision for uncollectible property taxes is based on a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable. Provision for uncollectible accounts receivable is based on an evaluation of delinquent accounts and adequacy of the allowance.

**Governmental Activities:**

General Fund:	
Allowance for taxes receivable	\$ 2,619,448
Allowance for doubtful accounts receivable	496,539
	<hr/>
Total General Fund	3,115,987
Special Revenue Fund - Stormwater Management Fund -	
Allowance for doubtful accounts receivable	375,563
	<hr/>
Total governmental activities	\$ 3,491,550

**Business-Type Activities - allowance for doubtful accounts receivable:**

Enterprise Funds:	
Public Utility Fund	\$ 694,854
Portsmouth Parking Authority	2,114
Waste Management Fund	742,612
	<hr/>
Total business-type activities	\$ 1,439,580

**F. Cash and Temporary Investments**

Cash and temporary investments from certain funds are combined and invested in local bank repurchase agreements and certificates of deposit. Each fund's share of the pooled cash is accounted for within the individual fund. Pooled cash overdrafts have been reclassified as interfund receivables and payables. The income from the pooled monies has been allocated to the respective funds based on the pooled cash balances of each fund at the end of each month. For purposes of the statement of cash flows, investments with original maturities of three months or less from date of purchase are considered cash equivalents and are reported as cash and temporary investments.

**G. Investments**

Investments are carried at fair value. Fair value is determined by quoted market prices. Investments in corporate bonds and commercial paper are valued at amortized cost if the maturity date is less than one year.

**H. Inventories**

Inventories consist of expendable materials and supplies held for future consumption and are valued at cost using the first-in, first-out (FIFO) basis. All inventories are recorded under the purchases method, as expenditures or expenses when purchased, rather than when consumed.

**I. Fund Balances**

Fund balance consists of five classifications based on the extent of the constraints imposed upon the use of the resources in the governmental funds. The fund balance classifications are as follows:

**Notes to Basic Financial Statements, Continued**

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*Nonspendable* – Fund balance is reported nonspendable when it is not in spendable form.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

*Committed* – Fund balance is reported as committed when amounts whose use is constrained by limitations that the government imposes upon itself. Such constraints are imposed by City Council, the City's highest level of decision making authority. Council action is required to commit funds and to remove or change the specified use of committed funds.

*Assigned* – Fund balance is reported as assigned when amounts are intended to be used for specific purposes. Assigned fund balance does not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, the reported assigned fund balance represents the amount of fund balance that is neither restricted or committed.

*Unassigned* – Fund balance is reported unassigned for the general fund for funds that are available for any purpose. The unassigned fund balance represents the residual classification for the general fund and contains the amounts not specified in other classifications.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or committed, assigned, and unassigned amounts are available. Following the restricted spending for expenditures, committed, assigned, and unassigned are utilized in that order for purposes for spending for in all other fund balance classifications other than restricted.

Fund Balance Policy Minimum – The City will maintain an unassigned general fund balance equal to 15% of general fund revenues in accordance with its fund balance policy.

**J. Capital Assets**

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection systems, and other elements of the City's infrastructure having a useful life of more than one year with a cost of more than \$5,000 with the exception of infrastructure assets, which have a threshold of \$100,000. Capital assets, which are used for general governmental purposes and are not available for expenditure, are accounted for and reported in the government-wide financial statements. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, parkland and improvements, and tunnels.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of capital assets.

**Notes to Basic Financial Statements, Continued**

Capital asset depreciation has been provided over the estimated useful lives using the straight-line method annually as follows:

	Estimated Useful Life in Years
Primary government:	
Site improvements	20
Infrastructure	30 - 50
Buildings	20 - 50
Intangible	10 - 20
Improvements other than buildings	10 - 50
Machinery, furniture, and equipment	5 - 15
Component unit - School Board:	
Buildings	20 - 50
Machinery, furniture, and equipment	5 - 30

**K. Compensated Absences**

City employees are granted vacation time in varying amounts based on length of service. They may accumulate unused vacation time earned and, upon retirement, termination, or death, may be compensated for the accumulated amounts at their current rates of pay not to exceed 352 hours. For nonexempt employees, overtime earned but not received in hours or compensation will accumulate and be paid in the event of retirement, termination, or death.

City employees accrue sick leave at the rate of eight hours for each full calendar month of work completed. Sick leave may be accumulated and carried forward until the time of retirement, termination, or death when the leave is forfeited.

The liability for compensated absences has been recorded in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. The cost of the compensated absences expected to be paid from future expendable financial resources is accounted for as a liability. In the governmental funds, the amount of compensated absences recorded as an expenditure is the amount utilized by the employees during the year. In the government-wide and proprietary fund financial statements, the amount of compensated absences recorded as an expense is the amount earned. A liability for compensated absences is reported in the governmental funds only if they have matured.

**L. Intra-entity Activity**

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as transfers. Such payments include transfers for debt service and capital construction. Resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

**M. Estimates and Assumptions**

A number of estimates and assumptions relating to the reporting of revenues, expenses, expenditures, assets, and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with generally accepted accounting principles (GAAP). Actual results could differ from those estimates.

**Notes to Basic Financial Statements, Continued**

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**(2) EQUITY**

The fund equity balances have been classified to reflect the limitations and restrictions placed on the respective funds. Nonspendable fund balance represents that portion of fund balance that is not in spendable form. Restricted fund balance represents that portion of fund balance which amounts are constrained to being used for a specific purpose by external parties or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents that portion of fund balance which use is constrained by limitations that the government imposes upon itself. Assigned fund balance represents that portion of fund balance which amounts are intended to be used for specific purposes. Unassigned fund balance represents the remainder of the City's equity in governmental fund type fund balances in which the funds are available for any purpose. Fund balances at June 30, 2011 are composed of the following:

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit H, Continued**
**Notes to Basic Financial Statements, Continued**


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	General Fund	Capital Improvements	Other Nonmajor
<b>Nonspendable</b>			
Inventory	\$ 76,610	-	-
Advances	2,584,125	-	-
Prepaid Items	-	-	2,223
Permanent - Cemetery Care	-	-	1,000,000
Total Nonspendable Fund Balances	2,660,735	-	1,002,223
<b>Restricted</b>			
Bond Issuance Cost (related activities)	140,677	-	-
Capital Improvements	-	59,343,536	-
Behavioral Health Services	-	-	2,374,681
Public Law Library	-	-	15,069
Stormwater Management Infrastructure Maintenance	-	-	1,878,651
Grants	-	-	1,038,439
Stimulus - AARA Capital Projects	-	-	3,935,062
Asset Forfeitures / Electronic Health Record System / et al	-	-	2,941,070
Community Development - (HUD) Housing Assistance	-	-	156,580
Permanent - Cemetery Care	-	-	453,535
Total Restricted Fund Balances	140,677	59,343,536	12,793,087
<b>Committed</b>			
CIP Equity Funding	2,000,000	-	-
Courthouse Reserve	1,818,803	-	-
CAMA System	300,000	-	-
General Wage Employees Bonus	916,069	-	-
Portsmouth Public Schools	699,881	-	-
Support to Civic Organizations	331,206	-	-
Cradock Recreation Center	450,000	-	-
Recreation Master Plan	65,000	-	-
Willett Hall - Events and related activities	-	-	486,538
Recreation	-	-	203,163
Total Committed Fund Balances	6,580,959	-	689,701
<b>Assigned</b>			
CSA - Special Education / Foster Care / Education	60,627	-	-
Total Assigned Fund Balances	60,627	-	-
<b>Unassigned</b>			
General Fund	42,086,840	-	-
Social Services	-	-	(29,999)
Total Unassigned Fund Balance	42,086,840	-	(29,999)
Total Fund Balances	\$ 51,529,838	\$ 59,343,536	\$ 14,455,012

**Notes to Basic Financial Statements, Continued**

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**(3) CASH****Deposits and Restricted Cash**

At June 30, 2011, the carrying value of the City's deposits with banks and savings institutions was \$130,349,567 which includes \$90,926 in the fiduciary funds. All cash of the City except petty cash of \$49,347 is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. As of June 30, 2011 restricted cash totaled \$25,465,020 of which \$25,445,091 represent unspent bond proceeds.

**Investments**

State statutes authorize the City to invest in obligations of the United States or agencies thereof, securities unconditionally guaranteed by the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, certificates of deposit, and the State Treasurer's Local Government Investment Pool (LGIP). The pension trust funds are also authorized to invest in common stocks and marketable debt securities which mature within twenty years with credit ratings no lower than Baa or BBB as measured by Moody's, Standard and Poor's, or Fitch IBCA's rating services.

**Investment Policy**

The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment. The City's investment policy addresses custodial credit risk, interest rate risk, concentration of risk, and credit risk, in which instruments are to be diversified and maturities timed according to anticipated needs in order to minimize any exposure. The City's policy does not address foreign currency risk. The City's investment policy requires that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia, including the Investment Code of Virginia and the guidelines established by the State Treasury Board and the Governmental Accounting Standards Board. The policy specifically states that the City shall limit investments to those allowed under the Virginia Security for Public Deposits Act, Sec. 2.1-359 through 2.1-370 and Investment of Public Funds as in Sec. 2.1-327 through 2.1-329, Code of Virginia. The City Treasury is responsible for diversifying the use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. It is the policy of the City to concentrate its investment efforts to banks located in the State of Virginia which are under the Virginia statutes for public funds and all banks must be approved by depositories by the State Treasury Board. The City's policy is to invest only in "prime quality" commercial paper, with a maturity of two hundred seventy days or less, or issuing corporations organized under the laws of the United States, or any state thereof including paper issued by banks and bank holding companies. Prime quality shall be as rated by the Moody's Investors Services, Inc. within its ratings of prim 1 or prime 2 or by Standard and Poor's, Inc. within its ratings of A-1 or A-2 or by Fitch Investors Service within its ratings of F-1 and F-2. The maximum percentage of funds to be invested in any one issue shall not exceed five (5) percent of the total portfolio.

**Notes to Basic Financial Statements, Continued**

As of June 30, 2011, the City's investment balances were as follows:

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
SNAP investments	\$ 82,057,394	AAAm	n/a	1 day
PFM Funds-Prime, Institutional Class	35,163	AAAm	n/a	1 day
Money market funds	74,232,225	AAAm	n/a	1 day
<b>\$ 156,324,782</b>				

The investments below are grouped according to type of investment and indicate the level of risks, if any:

*Virginia State Non-Arbitrage Program (SNAP), PFM Funds-Prime, Institutional Class, and Money Market Funds*

As of June 30, 2011, the SNAP Fund's investment portfolio as well as PFM Funds-Prime, Institutional Class was comprised of investments which were, in aggregate, rated AAAm by Standard and Poor's. The SNAP funds are subject to credit risk as well as interest rate risk.

*Pension Investments – Common Collective Trust Fund*

As of June 30, 2011, the City's pension investments were professionally managed by New York Life Investment Management LLC which invests primarily in Equity Funds. The fair value of the fund is determined by daily trades of securities. The allocation of the investment accounts are authorized between the Board of Trustees of the Portsmouth Fire and Police, the Portsmouth Supplemental Retirement Systems, Scott & Stringfellow and New York Life Investment Management LLC. The target allocation for all funds is 68% for equities and 32% for fixed income securities. None of the City's pension investments have credit ratings.

At June 30, 2011, the fair value of the City's pension investments is as follows:

Fund Name	Investment Type	Weighted Average Maturity/Liquidation	Fair Value
New York Life Fund:			
Davis New York Venture fund (Y)	Equity	1 day	\$ 17,296,431
Goldman Sachs Sm Cap Val Inst	Equity	1 day	5,846,911
American EuroPacific Growth R5	Equity	1 day	11,836,015
Pioneer Cullen Value Fund (Y)	Equity	1 day	29,229,631
Blackrock Infl Protected Bnd Inst	Equity	1 day	10,185,886
Templeton Global Bond Fund Adv	Equity	1 day	20,023,417
Cash	Equity	1 day	2,068,485
			\$ 96,486,776

**Notes to Basic Financial Statements, Continued**

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**Component Unit - School Board**

All of the deposits of the School Board, a discretely presented component unit, of \$46,990,846 are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by Federal depository insurance. The School Board has \$509,246 in the School Construction Fund that is held with a fiscal agent. The City Treasurer's policies on deposits and investments, as noted above, also apply to the School Board.

**Component Unit – Economic Development Authority**

At year end, the carrying value of deposits with banks for the Economic Development Authority, a discretely presented component unit, was \$870,359. All cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

**Component Unit – Portsmouth Port and Industrial Commission**

At year end, the carrying value of deposits with banks for the Portsmouth Port and Industrial Commission, a discretely presented component unit, was \$479,576. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

**CITY OF PORTSMOUTH, VIRGINIA****Exhibit H, Continued****Notes to Basic Financial Statements, Continued****(4) CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

<b>Primary Government - Governmental Activities</b>	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 17,430,801	-	-	17,430,801
Construction in progress	84,319,219	45,574,940	7,557,125	122,337,034
Construction in progress - Stimulus Fund	6,801,210	11,599,029	-	18,400,239
Total capital assets not being depreciated	108,551,230	57,173,969	7,557,125	158,168,074
Capital assets being depreciated:				
Infrastructure	488,807,198	-	-	488,807,198
Site improvements	2,239,871	-	-	2,239,871
Intangible	866,100	22,588	-	888,688
Buildings	209,873,365	7,438,349	-	217,311,714
Machinery, furniture, and equipment	44,014,681	2,723,351	2,325,670	44,412,362
Total capital assets being depreciated	745,801,215	10,184,288	2,325,670	753,659,833
Less accumulated depreciation for:				
Infrastructure	(340,401,947)	(2,517,296)	-	(342,919,243)
Site improvements	(729,185)	(98,597)	-	(827,782)
Buildings	(69,309,090)	(4,385,735)	-	(73,694,825)
Machinery, furniture, and equipment	(31,755,322)	(3,546,987)	2,325,670	(32,976,639)
Total accumulated depreciation	(442,195,544)	(10,548,615)	2,325,670	(450,418,489)
Total capital assets being depreciated, net	303,605,671	(364,327)	-	303,241,344
Governmental activities capital assets, net	\$ 412,156,901	56,809,642	7,557,125	461,409,418

Under Virginia Law, certain property, with a net book value of \$78,064,998<sup>5</sup> maintained by the School Board is subject to tenancy-in-common with the City, if the City has incurred a financial obligation for the property, which is payable over more than one fiscal year. The School Board and City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid.

**Notes to Basic Financial Statements, Continued****Depreciation expense was charged to functions as follows:**

General government	\$ 1,658,126
Judicial	186,332
Public safety	719,826
Public works	2,420,126
Health and welfare	459,462
Parks, recreation and cultural	387,182
Community development	304,303
Education	2,242,846
 Total governmental funds	 8,378,203
Depreciation on capital assets held by the City's internal service funds (see Exhibit E-2) is charged to the various functions based on their usage of the assets.	2,170,412
 Total governmental activities	 \$ 10,548,615

## Notes to Basic Financial Statements, Continued

Construction in progress for the governmental activities is comprised of the following:

	Project	Expended to	
	Authorization	June 30, 2011	Commitments
Newcourts complex	42,950,259	39,075,686	811,862
Drainage Facilities Repair & Lake Mgt	\$ 19,420,968	17,296,744	1,341,323
Children's Museum expansion	15,043,060	14,265,536	86,569
Victory Boulevard (2%CityMatch to VDOT)	12,363,250	8,521,356	489,090
Churchland Bridge	9,100,000	396,297	311,423
Holiday Inn Site Redevelopment	7,000,000	7,000,000	-
Behavioral Health building	7,529,003	209,650	428,232
Churchland Library	6,747,590	6,727,202	5,514
Churchland High School - air quality	3,691,307	3,667,441	3,356
PACNetlos Pavilion	3,480,478	3,436,341	39,481
McLean Street / Cavalier Boulevard	3,400,000	235,783	19,700
Update Traffic Signal-8 Intersections	3,244,800	376,687	1,805,397
Update Traffic Signal-10 Intersections	3,185,600	18,318	328,770
Midtown Corridor	2,700,000	82,400	27,600
Renovations to various buildings	2,466,693	1,941,892	36,770
Crawford Parkway Bulkhead Replacement	2,459,579	2,458,330	399
Traffic Signal Improvements	2,304,000	871,771	14,650
Bridge repairs	2,250,985	1,676,674	70,957
Civic Center specifications	2,137,453	1,988,384	8,731
Hope 6 project - Jeffry Wilson	2,100,000	677,363	-
City / Schools joint financial management system	2,070,386	1,680,115	346,434
Ebony Heights improvements	2,001,212	1,921,960	79,252
Highland Biltmore improvements	1,944,385	1,931,860	6,800
Street improvements - South Portsmouth	1,868,356	889,996	9,836
Parking garage repairs - Harbor Tower	1,604,978	1,062,383	2,830
City Gate Way	1,108,000	214,380	443,864
Recreation Facility Repair/Replacement	1,025,600	389,200	5,390
Terminal Impact Mitigation	1,000,000	936,809	-
Various projects under \$1,000,000 each	4912,097	2,386,476	152,836
	\$ 171,110,039	122,337,034	6,877,066

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit H, Continued**
**Notes to Basic Financial Statements, Continued**


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Stimulus Fund Open Projects	Project Authorization	Expended to June 30, 2011	Commitments
Traffic Signal Improvements	\$ 2,423,543	1,084,638	-
ARRA- JAG 2009	654,981	325,120	-
Prentis Park Waterline Replacement	4,808,250	4,546,233	-
CDBG-Recovery Funds	473,578	200,000	-
ARRA-Energy Effcy Cons Block Grant	1,002,000	359,354	-
Simonsdale School	17,222,170	11,884,894	-
	\$ 26,584,522	18,400,239	-

When a project is authorized, financing is either presently available or general obligation bonds are authorized to be issued. In anticipation of the issuance of general obligation bonds, bond anticipation notes may be utilized to provide temporary financing. Commitments totaling \$6,877,066 have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Primary Government - Business-Type Activities	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 15,348,574	-	-	15,348,574
Construction in progress	79,995,746	21,420,060	-	101,415,806
Total capital assets not being depreciated	95,344,320	21,420,060	-	116,764,380
Capital assets being depreciated:				
Buildings	25,469,577	-	43,331	25,426,246
Improvements other than buildings	172,607,621	-	554,952	172,052,669
Machinery, furniture, and equipment	20,934,716	336,308	1,307,443	19,963,581
Total capital assets being depreciated	219,011,914	336,308	1,905,726	217,442,496
Less accumulated depreciation for:				
Buildings	(13,303,083)	611,074	43,331	(13,870,826)
Improvements other than buildings	(67,525,114)	3,754,642	473,149	(70,806,607)
Machinery, furniture, and equipment	(12,373,457)	1,744,095	1,269,079	(12,848,473)
Total accumulated depreciation	(93,201,654)	6,109,811	1,785,559	(97,525,906)
Total capital assets being depreciated, net	125,810,260	6,446,119	3,691,285	119,916,590
Business-type activities capital assets, net	\$ 221,154,580	27,866,179	3,691,285	236,680,970

**Notes to Basic Financial Statements, Continued**

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**Depreciation expense was charged to business-type activities as follows:**

Public utilities	\$ 4,633,518
Parking Authority	480,985
Port facility	46,118
Golf	126,248
Waste Management	<u>822,942</u>
Total business-type activities	\$ 6,109,811

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit H, Continued**
**Notes to Basic Financial Statements, Continued**


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**Primary Government -  
Major Enterprise Funds**

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
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**Public Utility Fund**

Capital assets not being depreciated:

Land	\$ 324,079	-	-	324,079
Construction in progress	79,995,746	21,420,060	-	101,415,806
Total capital assets not being depreciated	80,319,825	21,420,060	-	101,739,885

Capital assets being depreciated:

Buildings	736,018	-	43,331	692,687
Improvements other than buildings	170,274,136	-	525,952	169,748,184
Machinery, furniture, and equipment	11,440,070	336,308	521,772	11,254,606
Total capital assets being depreciated	182,450,224	336,308	1,091,055	181,695,477

Less accumulated depreciation for:

Buildings	(106,581)	(18,870)	(43,331)	(82,120)
Improvements other than buildings	(65,229,209)	(3,754,040)	(465,176)	(68,518,073)
Machinery, furniture, and equipment	(6,660,836)	(860,608)	(483,405)	(7,038,039)
Total accumulated depreciation	(71,996,626)	(4,633,518)	(991,912)	(75,638,232)
Total capital assets being depreciated, net	110,453,598	(4,297,210)	99,143	106,057,245

Public Utility Fund capital assets, net      \$ 190,773,423      17,122,850      99,143      207,797,130

**Parking Authority**

Capital assets not being depreciated:

Land	\$ 679,680	-	-	679,680
Total capital assets not being depreciated	679,680	-	-	679,680

Capital assets being depreciated:

Buildings	18,667,910	-	-	18,667,910
Improvements other than buildings	260,636	-	-	260,636
Machinery, furniture, and equipment	486,889	-	-	486,889
Total capital assets being depreciated	19,415,435	-	-	19,415,435

Less accumulated depreciation for:

Buildings	(9,367,970)	(460,982)	-	(9,828,952)
Improvements other than buildings	(244,082)	(601)	-	(244,683)
Machinery, furniture, and equipment	(215,969)	(19,401)	-	(235,370)
Total accumulated depreciation	(9,828,021)	(480,984)	-	(10,309,005)
Total capital assets being depreciated, net	9,587,414	(480,984)	-	9,106,430

Parking Authority capital assets, net      \$ 10,267,094      (480,984)      -      9,786,110

**Notes to Basic Financial Statements, Continued**

Construction in progress in the Public Utility Fund is composed of the following:

	Project Authorization	Expended to June 30, 2011	Commitments
<b><u>Public Utility Fund:</u></b>			
Infrastructure improvements	\$ 39,769,500	36,799,291	2,706,134
Godwin Street reservoir replacement	10,896,371	10,787,571	104,065
Lake Kilby raw water pumping station	8,050,870	5,848,962	3,253,489
Replacement of water plant equipment	8,143,913	4,624,643	99,780
Downtown master utility	16,900,000	456,681	306,058
Suction well rehabilitation	7,018,290	2,967,672	-
Water plant residuals management and disposal	6,133,500	5,774,077	-
Sewer cave-in repair	4,834,762	4,063,584	147,375
Camden Avenue sewer rehabilitation	2,685,000	1,618,013	46,207
Sanitary sewer overflow elimination	8,600,000	4,628,746	3,597,358
Miscellaneous sewer improvements	6,826,016	2,993,991	859,041
Meter replacement program	4,249,000	258,651	90,049
Williams Court Outlet Sewer	2,500,000	8,098	225,583
Miscellaneous water improvements	2,185,615	1,049,900	9,218
Low pressure transmission mains	3,250,000	1,249,891	373,973
Replacement 2" water mains	1,646,319	309,671	-
Lake Kilby replacement filters	1,600,000	95,629	17,721
Various projects under \$1,000,000 each	931,004	320,429	-
	\$ 136,220,160	83,855,500	11,836,051

In addition to the amount of \$83,855,500 shown above as expended to June 30, 2011, \$15,292,745 is included in construction in progress for capitalized interest and \$2,267,560 for Prentis Park Water Project, bringing total construction in progress to \$101,415,805. When a project is authorized, financing is either presently available or general obligation public utility bonds or revenue bonds are authorized to be issued. In anticipation of the issuance of general obligation public utility bonds or revenue bonds, bond anticipation notes may be utilized to provide temporary financing.

**CITY OF PORTSMOUTH, VIRGINIA****Exhibit H, Continued****Notes to Basic Financial Statements, Continued****School Board Component Unit**

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 6,125,204	-	-	6,125,204
Construction in progress	13,562,810	7,649,738	4,806,938	16,405,610
<b>Total capital assets not being depreciated</b>	<b>19,688,014</b>	<b>7,649,738</b>	<b>4,806,938</b>	<b>22,530,814</b>
Capital assets being depreciated:				
Buildings	68,968,906	4,806,938	-	73,775,844
Machinery, furniture, and equipment	21,458,915	1,927,686	230,761	23,155,840
Intangibles	422,270	-	-	422,270
<b>Total capital assets being depreciated</b>	<b>90,850,091</b>	<b>6,734,624</b>	<b>230,761</b>	<b>97,353,954</b>
Less accumulated depreciation for:				
Buildings	(28,344,129)	(1,309,131)	-	(29,653,260)
Machinery, furniture, and equipment	(12,857,783)	(1,314,797)	(214,132)	(13,958,448)
Intangibles	(51,327)	(84,454)	-	(135,781)
<b>Total accumulated depreciation</b>	<b>(41,253,239)</b>	<b>(2,708,382)</b>	<b>(214,132)</b>	<b>(43,747,489)</b>
Capital assets being depreciated/amortized				
<b>Total capital assets - being depreciated</b>	<b>49,596,852</b>	<b>4,026,242</b>	<b>16,629</b>	<b>53,606,465</b>
<b>School Board capital assets, net</b>	<b>\$ 69,284,866</b>	<b>\$ 11,675,980</b>	<b>\$ 4,823,567</b>	<b>\$ 76,137,279</b>

**Economic Development Authority Component Unit**

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 1,205,660	-	-	1,205,660
<b>Total capital assets not being depreciated</b>	<b>\$ 1,205,660</b>	<b>-</b>	<b>-</b>	<b>1,205,660</b>

**CITY OF PORTSMOUTH, VIRGINIA**
**Exhibit H, Continued**
**Notes to Basic Financial Statements, Continued**


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**(5) LONG - TERM DEBT**
**Details of Long-Term Indebtedness**

At June 30, 2011, the long-term indebtedness of the City consisted of the following:

		Interest Rate	Amount Outstanding
<b>Governmental Activities</b>			
General obligation bonds, net:			
1999	Qualified Zone Academy Bonds	0.00%	\$ 549,089
2001	Qualified Zone Academy Bonds	0.00%	424,794
2001	VPSA - Series 2001B Bonds	4.1 - 5.35%	1,945,340
2006	VPSA - Series 2006B Bonds	4.2 - 5.1%	5,155,972
2003	Public Improvement (Refunding) bonds	3.8 - 5.0%	33,046,269
2004	BHS Lease Revenue Bond	3.5 - 5.0%	3,855,533
2005A	Public Improvement bonds	3.75 - 5.0%	26,201,839
2005C	Public Improvement (Refunding) bonds	5.0 - 5.4%	9,558,583
2006A	Public Improvement & Refunding bonds	4.1 - 5.0%	39,007,039
2006B	Taxable Public Improvement (Refunding) bonds	5.75%	4,666,416
2009A	Public Improvement (Refunding) bonds	4.0 - 4.75%	6,203,925
2009B	Public Improvement (Refunding) bonds	3.0 - 5.25%	12,258,078
2009C	Taxable Public Improvement (Refunding) bonds	5.62 - 6.4%	15,657,992
2009D	Public Improvement (Refunding) bonds	3.0 - 4.0%	10,463,820
2009	QSCB	0.00%	17,166,748
2010A	Public Improvement bonds	3.0-4.0%	3,804,687
2010B	Taxable Public Improvement bonds (BABs)	4.68-6.28%	29,240,000
2010D	Public Improvement (Refunding) bonds	3.0 - 5.25%	30,776,578
2011	Public Improvement (Refunding) bonds	2.5 - 5.0%	15,956,924
<b>Total general obligation bonds, net</b>			<b>265,939,626</b>
General obligation note-Series 2010C			25,209,583
General obligation note - Series 2011			25,245,290
Obligations under capital leases			17,253,638
Literary loans			1,875,000
Compensated absences			7,436,189
Arbitrage liability			39,503
<b>Total governmental activities</b>			<b>\$ 342,998,829</b>
<b>Business-Type Activities</b>			
General obligation bonds, net:			
2003	Public Utility (Refunding) bonds	3.0 - 5.0%	\$ 19,813,913
2005A	Public Utility bonds	3.5 - 5.0%	19,698,849
2005B	Public Utility (Refunding) bonds	3.25 - 5.0%	16,585,951
2006A	Public Utility bonds	4.12 - 5.0%	15,814,230
2009D	Public Utility (Refunding) bonds	3.0 - 4.0%	1,718,976
2009E	General Obligation bond	0.00%	2,404,125
2010A	Public Improvement bonds	3.0-4.0%	3,640,770
2010B	Taxable Public Improvement bonds (BABs)	4.68-6.28%	25,110,000
2010D	Public Utility (Refunding) bonds	3.00%	707,226
2011	Publio Utility (Refunding) bonds	2.5 - 5.0%	7,876,796
2003	Public Improvement (Refunding-Parking)	3.0 - 5.0%	5,584,426
2005A	Public Improvement bonds (Parking Fund)	3.5 - 5.0%	114,547
2009A	Public Improvement (Refunding-Parking)	4.0 - 4.75%	73,755
2009B	Public Improvement (Refunding-Parking)	3.0 - 5.25%	20,433
2011	Public Improvement (Refunding - Parking)	2.5 - 5.0%	205,316
2005A	Public Improvement (Refunding Golf)	3.5 - 5.0%	3,279,818
2009B	Public Improvement (Refunding-Golf)	3.0 - 5.25%	1,128,241
2011	Public Improvement (Refunding- Golf)	2.5 - 5.0%	2,054,530
<b>Total general obligation bonds, net</b>			<b>125,831,902</b>
Obligations under capital leases			2,574,020
Landfill closure and postclosure care			6,589,612
Compensated absences			705,278
<b>Total business type-activities</b>			<b>\$ 135,700,812</b>

## Notes to Basic Financial Statements, Continued

General obligation bonds are stated net of unamortized bond premiums, discounts, and deferred amounts on refunding.

At June 30, 2011, the long-term indebtedness of Component Units consisted of the following:

	Amount Outstanding
<b>School Board:</b>	
Obligations under capital leases	\$ 5,883,864
Net pension obligation	113,686
Compensated absences	<u>5,015,482</u>
	<u>\$ 11,013,032</u>

**Changes in Indebtedness**

The following is a summary of changes in long-term indebtedness of the City for the year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Due Within One Year
<b>Primary Government - Governmental Activities:</b>					
General obligation bonds	\$ 244,393,201	43,825,000	(22,412,909)	265,805,292	8,790,002
General obligation notes	24,730,000	24,000,000	-	48,730,000	431,219
Plus (less) bond premiums (discounts)	3,652,773	4,283,054	(1,050,317)	6,885,510	
Less refunding costs	(5,630,901)		604,598	(5,026,303)	
	<u>\$ 267,145,073</u>	<u>72,108,054</u>	<u>(22,858,628)</u>	<u>316,394,499</u>	<u>9,221,221</u>
Bond Anticipation Note	29,935,000	-	(29,935,000)	-	-
Compensated absences	7,644,224	1,878	(209,913)	7,436,189	4,663,629
Literary loans	2,250,000	-	(375,000)	1,875,000	375,000
Capital leases	13,474,218	8,944,834	(5,165,414)	17,253,638	2,782,389
Arbitrage liability	54,254	-	(14,751)	39,503	-
Total Governmental Activities	<u>\$ 320,502,769</u>	<u>\$ 81,054,766</u>	<u>\$ (58,558,706)</u>	<u>\$ 342,998,829</u>	<u>26,263,460</u>
<b>Business Type Activities</b>					
General obligation bonds	\$ 130,284,462	10,854,288	(15,306,848)	125,831,902	4,363,142
Landfill closure and postclosure care	5,568,962	1,020,650		6,589,612	-
Compensated absences	742,725	4,919	(34,291)	713,353	782,712
Capital leases	2,208,079	2,574,020	(2,208,079)	2,574,020	681,478
Arbitrage liability	-	-		-	-
Total Business Type Activities	<u>138,804,228</u>	<u>14,453,877</u>	<u>(17,549,218)</u>	<u>135,708,887</u>	<u>5,827,332</u>
<b>Major Enterprise Funds:</b>					
Public Utility Fund:					
General obligation bonds	117,497,333	8,584,022	(12,710,519)	113,370,836	4,369,223
Compensated absences	401,903	236	(18,668)	383,471	499,587
Total Public Utility Fund	<u>117,899,236</u>	<u>8,584,258</u>	<u>(12,729,187)</u>	<u>113,754,307</u>	<u>4,868,810</u>
Parking Authority					
General Obligation bond	6,286,934	205,316	(493,773)	5,998,477	305,761
Compensated absences	28,048	4,156	(854)	31,350	21,776
Total Parking Authority	<u>\$ 6,314,982</u>	<u>\$ 209,472</u>	<u>\$ (494,627)</u>	<u>\$ 6,029,827</u>	<u>\$ 327,537</u>

**Notes to Basic Financial Statements, Continued**

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the government-wide Statement of Net Assets. The amount due within one year for compensated absences has been estimated and is generally liquidated by the fund for which the employee works.

Section 148 of the Internal Revenue Code of 1986 requires public entities to refund interest earned in excess of interest paid over the first five years outstanding on tax exempt borrowings. The regulations are applicable to borrowings incurred subsequent to August 1986. The City has calculated the rebate due as if June 30, 2011 was the settlement date, and reflected the liability, if any, in either the Public Utility Fund or the governmental activities column of the Statement of Net Assets, depending on the bond issue and timing of payment.

The following is a summary of changes in long-term indebtedness of the Component Units for the year ended June 30, 2011:

	Balance, July 1, 2010	Increases	Decreases	Balance June 30, 2011	Due Within One Year
<b>School Board:</b>					
Capital leases	\$ 6,503,228	-	(619,364)	5,883,864	670,048
Net pension obligation	113,440	246	-	113,686	-
Compensated absences	4,940,839	1,885,795	(1,811,152)	5,015,482	1,615,000
<b>Total School Board</b>	<b>\$ 11,557,507</b>	<b>1,886,041</b>	<b>(2,430,516)</b>	<b>11,013,032</b>	<b>2,285,048</b>

The debt recorded in the enterprise and internal service funds is paid from revenues earned in those funds. General obligation debt is paid from the General Fund for which the primary funding sources are general property taxes and other local taxes.

As of June 30, 2011 there were \$9,076,963 of general obligation public improvement bonds and \$49,257,000 of general obligation public utility bonds that were authorized but unissued. As of June 30, 2011, the City's legal margin for additional debt is \$406,696,941.

**Defeased Debt**

In prior years, the City defeased certain general obligation public improvement bonds by placing funds in irrevocable escrow accounts to provide for future debt service payments on the defeased debt. Accordingly, the escrow account assets and liabilities for the defeased debt are not included in the City's financial statements. At June 30, 2011, the outstanding balance of the defeased debt is \$29,045,000 of which \$2,389,000 is related to the Golf Fund, \$224,000 is for the Parking Fund and \$7,640,000 is related to the Public Utilities Fund.

**Debt Issued**

On December 16, 2010, the City issued \$30,760,000 of General Obligation and Refunding bonds, Series 2010D with a premium of \$824,424. The proceeds used to currently refund prior issues were \$31,297,824. Of the proceeds amount, \$29,970,000 were issued to redeem the City's General Obligation Bond Anticipation Note, Series 2008, which was issued to finance the costs of the planning, design, acquisition, construction, and equipping of various capital improvement projects of the City, and \$790,000 was used to currently refund the City's General Obligation Public Utility Refunding bonds, Series 1997B. The current

**Notes to Basic Financial Statements, Continued**

refunding of the General Obligation Public Utility Refunding bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$85,241. The refunding of the 2008 BAN resulted in an increase in debt service over the next 25 years of \$22,524,173 and an economic loss (the difference between the present value of the debt service payments on the old and the new debt) of \$348,995. The refunding of the General Obligation Public Utility Refunding bonds resulted in a decrease in debt service for the next two years of \$28,576 and an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$29,041.

On February 10, 2011, the City entered into a Master Equipment Lease Agreement with Banc of America Public Capital Corp. The amount of proceeds issued was \$11,553,635 of which \$5,095,135 was used to refund existing leases and \$6,228,500 was for the purchase of vehicles and equipment for the City. The difference between the reacquisition price and the net carrying amount of the old debt was \$2,882 for the governmental leases. This difference, reported in the accompanying government-wide financial statements as a deduction from capital leases payable, is being amortized over the life of the new debt. The proceeds of the 2011 Master Lease were used to refund existing leases in the City Garage fund (\$2,795,771); Waste Management Fund (\$1,759,512); Information Technology Fund (\$30,629) and the General Fund (\$473,930).

On June 28, 2011, the City issued \$23,890,000 of Series 2011 General Obligation Refunding Bonds with a premium of \$3,616,936 and \$24,000,000 of Series 2011 General Obligation Notes with a premium of \$1,245,290. A portion of the proceeds of the bonds will be used to purchase United States Treasury Notes and United States Agency Securities which will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund that portion of the City's General Obligation Refunding Bonds, Series 2003 and the General Obligation and Refunding Bonds, Series 2005A. The advance refunding of the Series 2011 General Obligation Refunding Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,359,094. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The refunding resulted in an overall decrease in debt service over the next 14 years of \$1,175,119 and an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$737,159.

The proceeds used to advance refund the Series 2003 and Series 2005A bonds are allocated as follows:

Series 2003 G.O. Refunding bonds	\$ 605,000
Series 2003 G.O. Public Utility bonds	640,000
Series 2003 G.O. Parking bond	<u>135,000</u>
	\$ 1,380,000
Series 2005A G.O. bonds	\$ 13,090,000
Series 2005A G.O. Public Utility bonds	7,000,000
Series 2005A G.O. Golf Fund bonds	2,090,000
Series 2005A G.O. Parking Fund bonds	<u>60,000</u>
	\$22,240,000

The \$24,000,000 Series 2011 G.O. Note (BAN) was issued to fund the City's New Court facility. The note is split between a \$19,000,000 BAN coupon at a rate of 4% and a \$5,000,000 BAN coupon of 3%. Interest on the 2011 Bonds will be payable on each January 15 and July 15, commencing January 15, 2012, until the earlier of maturity or redemption.

**Debt Compliance and Repayment**

**Notes to Basic Financial Statements, Continued**

The annual requirements to amortize all outstanding long-term indebtedness of the City to maturity as of June 30, 2011 (except compensated absences and landfill closure and post closure care) are as follows:

**Governmental Activities:**

Fiscal Year Ending	General Obligation Bonds		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	9,221,221	22,166,770	375,000	37,500	2,782,389	1,183,619
2013	12,269,402	29,618,919	250,000	30,000	2,545,612	1,036,984
2014	13,769,318	31,522,404	250,000	25,000	2,624,131	919,302
2015	62,748,261	32,015,658	250,000	20,000	1,729,604	799,595
2016	15,423,332	31,183,087	250,000	15,000	1,819,614	711,802
2017-2021	71,327,188	148,932,279	500,000	15,000	5,752,288	1,624,713
2022-2026	70,055,971	139,230,466	-	-	-	-
2027-2031	41,786,487	80,942,948	-	-	-	-
2032-2036	19,793,319	31,867,485	-	-	-	-
	\$ 316,394,499	547,480,016	1,875,000	142,500	17,253,638	6,276,015

**Business-Type Activities:**

Fiscal Year Ending	General Obligation		Capital Leases	
	Principal	Interest	Principal	Interest
2012	4,728,388	5,673,622	681,478	47,664
2013	5,275,508	5,687,979	870,876	27,149
2014	5,257,448	5,466,049	684,381	13,819
2015	5,664,523	5,214,974	166,885	5,748
2016	5,924,332	4,950,711	170,400	2,231
2017-2021	33,509,319	20,356,820	-	-
2022-2026	30,782,364	13,046,604	-	-
2027-2031	19,904,877	7,139,893	-	-
2032-2036	8,094,458	3,269,784	-	-
2037-2041	6,690,685	1,007,151	-	-
	\$ 125,831,902	71,813,587	2,574,020	96,611

**Notes to Basic Financial Statements, Continued****(6) LEASING ARRANGEMENTS**

As a lessee, the City leases certain land, buildings, equipment and vehicles under capital leases and certain facilities under operating leases that expire in years through 2024. Included in capital assets are the following amounts applicable to capital leases:

		Governmental	Internal Service	Enterprise
Buildings	\$ 12,347,181		-	-
Machinery, furniture, and equipment	7,572,317	17,662,979	6,688,101	
<u>Less accumulated depreciation</u>	(9,766,733)	(11,469,080)	(4,256,565)	
<b>Capital assets, net</b>	<b>\$ 10,152,765</b>	<b>6,193,899</b>	<b>2,431,536</b>	

The total amount of capital lease equipment acquired during fiscal year ended June 30, 2011 was \$4,674,621. Depreciation expense on leased assets was \$3,396,729 for the fiscal year ended June 30, 2011.

The present value of future minimum capital and operating lease payments of the City as of June 30, 2011 is as follows:

Fiscal Year Ending		Capital	Operating
2012	\$ 4,695,150	\$ 1,203,480	
2013	4,480,621	376,213	
2014	4,241,633	378,037	
2015	2,701,832	335,017	
2016	2,704,047	240,120	
2017-2024	7,377,001	-	
Total minimum lease payments	26,200,284	\$ 2,532,867	
<u>Less amount representing interest</u>	(6,372,626)		
<b>Present value of minimum capital lease payments</b>	<b>\$ 19,827,658</b>		

Total governmental operating lease payments for the year ended June 30, 2011 were \$1,165,347.

**(7) RETIREMENT PLANS**

Most full-time employees of the City are eligible for benefits in the event of retirement, death, or disability under the State administered Virginia Retirement System (VRS) or under one of the two retirement plans administered by the City.

In addition, professional and nonprofessional employees of the School Board are covered by VRS. Professional employees participate in a VRS statewide teacher cost-sharing pool and nonprofessional employees participate as a separate group in the agent multiple-employee retirement system.

All of these plans are non-contributory defined benefit pension plans. These City and State Retirement Systems are described below.

**Notes to Basic Financial Statements, Continued****Portsmouth Retirement Systems*****Plan Description - Portsmouth Supplemental Retirement System***

The Portsmouth Supplemental Retirement System (PSRS) is a single-employer non-contributory retirement system that was established on October 1, 1953. It was designed to provide retirement, death, or disability benefits for all regular full-time, permanent employees who were not eligible for membership in VRS or the Portsmouth Fire and Police Retirement System (PFPRS). On December 1, 1984, the City offered an option to all employees of the PSRS to either remain with their current system or transfer to VRS. All regular full-time employees hired after December 1, 1984 are members of VRS as required by State statutes. Therefore, the PSRS has become a "closed" system.

All regular full-time permanent employees (except those eligible for membership in the Virginia Retirement System and the Portsmouth Fire and Police Retirement System as noted above) that were hired prior to December 1, 1984 were eligible to participate in the PSRS. Employees who have attained age 50 with five years of service are eligible for a retirement benefit payable monthly during the lifetime of the member, equal to 2% of their average final compensation (AFC) multiplied by years of creditable service. AFC is the average annual compensation during the 36 consecutive months of creditable service that yields the highest average. At age 65, the annual retirement benefit is adjusted to an amount equal to the greater of 1.15% of their AFC multiplied by years of creditable service or the excess of 2% of such salary multiplied by years of creditable service over 2% of the primary social security benefit multiplied by years of creditable service not in excess of 25 years.

Benefits may be increased from time to time by percentage adjustments approved by City Council. Effective July 1, 1994, retirees that retire on Normal Service Retirement may be eligible to receive an additional allowance of \$200 per month until age 65. The married member shall be provided a 50% spousal option at no cost if the spouse is no more than 5 years younger than the member. The PSRS also provides death and disability benefits.

The employer is required by City Code to contribute the amounts necessary to fund the system based on an actuarially determined percentage of payroll. There are no required contributions from the employees.

***Plan Description - Portsmouth Fire and Police Retirement System***

The Fire and Police Retirement System is a single-employer retirement system that was established on January 1, 1957. Its membership is comprised of every firefighter or police officer, hired prior to July 1, 1995, who is a full-time permanent employee. All full-time firefighters and police officers hired after June 30, 1995 are members of VRS Law Enforcement Officers (LEO) retirement system as required by State statutes. Therefore, the FPRS has become a "closed" system.

Benefits vest after five years of service. Employees may retire at any time with 20 years of service, regardless of age. Employees 50 or older may retire at any time with less than 20 years of service provided the vesting requirement has been satisfied. Employees are entitled to an annual retirement benefit payable in an amount equal to 3% of the average final compensation (AFC) for the first 20 years and 2% for each of the next 5 years of service and 1% for each year thereafter multiplied by years of creditable service. AFC is defined as the highest consecutive 36 months of compensation. Benefits begin at age 60 for members who terminate employment prior to age 50 with less than 20 years of creditable service.

Benefits may be increased from time to time by percentage adjustments approved by City Council. Effective July 1, 1994, retirees receive a supplement of \$200 per month until age 65. In addition, an automatic 50% survivor option has been added for all retirees at no cost to the retirees. The FPRS also

**Notes to Basic Financial Statements, Continued**

provides death and disability benefits. These benefit provisions and all other requirements are established by City Council.

The employer is required by City Code to contribute the amounts necessary to fund the system based on an actuarially determined percentage of payroll. There are no required contributions from the employees.

***Payroll and Participants***

The payroll at June 30, 2011 for employees covered by PSRS and FPRS and the total payroll for all City employees was as follows:

Payroll for employees covered by PSRS	\$ 1,794,701
Payroll for employees covered by FPRS	8,853,674
Total City payroll	78,275,583

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of July 1, 2011:

	PSRS	FPRS
Retirees and beneficiaries	392	568
Vested terminated employees not yet receiving benefits	37	56
Current vested employees	38	121
	467	745

***Summary of Significant Accounting Policies***

The City accounts for the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System as pension trust funds and does not separately issue financial reports for these plans. The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Contributions to each plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market value are reported at estimated fair value.

***Contributions***

The funding policy of PSRS and FPRS provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Rates necessary to support post-retirement supplements which may be payable in addition to the basic benefits are determined separately on a pay-as-you-go basis.

Total contributions to the PSRS and FPRS for fiscal year 2011 were \$3,140,843 and \$12,814,885, respectively. The annual required contributions of \$3,744,866 and \$13,341,174 were calculated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2009.

**Notes to Basic Financial Statements, Continued*****Annual Pension Cost***

The required contributions were determined as part of the July 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 3% inflation rate, (b) 8% investment rate of return, and (c) projected salary increases ranging from 5.0% to 6.0% per year, and (d) 3.0% per year cost-of-living adjustments. The 30-year amortization period for Unfunded Actuarial Accrued Liability is phasing down in one-year increments beginning July 1, 2007. The actuarial value of the City's assets is equal to the market value of assets. The net pension asset is recorded in the government-wide Statement of Net Assets.

The annual pension cost and net pension asset for the current fiscal year were as follows:

	PSRS	FPRS
Annual required contribution	\$ 3,744,866	13,341,174
Interest on net pension asset/obligation	(24,280)	(83,817)
Adjustment to annual required contribution	28,075	96,921
Annual pension cost	3,748,661	13,354,278
Contributions made	3,140,834	12,814,885
(Increase)/Decrease in net pension (asset) obligation	607,827	539,393
Net pension (asset) obligation at beginning of year	(303,495)	(1,047,712)
Net pension (asset) obligation at end of year	\$ 304,332	(508,319)

There are no significant investments (other than U.S. Government and U.S. Government-guaranteed obligations) in any one organization that represent 5% or more of net assets available for benefits.

The financial statements for the PSRS and the PPRS are as follows:

**Statement of Fiduciary Net Assets****June 30, 2011**

	PSRS	FPRS
Assets:		
Investments:		
Cash	\$ 642,091	1,426,394
Common stock	14,694,486	49,514,502
Corporate bonds	6,913,521	23,295,782
Total investments	22,250,098	74,236,678
Total assets	\$ 22,250,098	74,236,678
Net assets held in trust for pension benefits	\$ 22,250,098	74,236,678

**Notes to Basic Financial Statements, Continued****Statement of Changes in Fiduciary Net Assets****Year Ended June 30, 2011**

	<b>PSRS</b>	<b>FPRS</b>
<b>Additions:</b>		
Contributions	\$ 3,140,834	12,814,885
Investment income -		
Net increase in fair value of investments	4,211,459	12,767,592
Less investment expense	(85,732)	(210,767)
<b>Net investment income</b>	<b>4,125,727</b>	<b>12,556,825</b>
Total additions	7,266,561	25,371,710
<b>Deductions:</b>		
Benefits	7,904,746	16,963,510
Change in net assets	(638,185)	8,408,200
Net plan assets held in trust for pension benefits, beginning of year	22,888,283	65,828,478
<b>Net plan assets held in trust for pension benefits, end of year</b>	<b>\$ 22,250,098</b>	<b>74,236,678</b>

**Virginia Retirement System*****Plan Description***

The City of Portsmouth and the School Board Component Unit contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the System). All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
  
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 and covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

**Notes to Basic Financial Statements, Continued**

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- Eligible hazardous duty members in plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefits as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available on our web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or obtained by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

***Funding Policy***

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. This 5.00% member contribution may be assumed by the employer. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for the fiscal year ended June 30, 2011 were 11.87% and 9.0% of the annual covered payroll, respectively.

Additionally, required and actual contributions to the VRS state-wide teacher pool for the current year and each of the two preceding years were \$6,917,352 and \$8,999,661 and \$11,099,159, respectively.

***Annual Pension Cost***

**Notes to Basic Financial Statements, Continued**

For the fiscal year ended June 30, 2011, the City's annual pension cost of \$8,059,173 which includes the 5% employee contribution assumed by the City was equal to the City's required and actual contributions. The School Board's annual pension cost of \$1,000,556 was not equal to the School Board's required or actual contributions. The School Board's actual contributions were \$1,000,310.

The City and School Board's annual pension cost and net pension obligation to VRS for the current year were as follows:

	City	School Board
Annual required contribution	\$ 8,059,173	1,000,310
Interest on net pension obligation	-	8,508
Adjustment to annual required contribution	-	(8,262)
Annual pension cost	8,059,173	1,000,556
Contributions made	8,059,173	1,000,310
Increase in net pension obligation	-	246
Net pension obligation at beginning of year	-	113,440
Net pension obligation at end of year	\$ -	113,686

***Three-Year Contribution Trend Information***

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
<b>Portsmouth Supplemental:</b>			
June 30, 2011	\$ 3,748,661	84%	304,332
June 30, 2010	2,573,502	102%	(303,495)
June 30, 2009	2,268,053	100%	(261,997)
<b>Portsmouth Fire and Police:</b>			
June 30, 2011	13,354,278	96%	(508,319)
June 30, 2010	11,381,661	111%	(1,047,712)
June 30, 2009	10,894,856	100%	237,627
<b>VRS - City:</b>			
June 29, 2011	8,059,173	100%	-
June 30, 2010	7,128,723	100%	-
June 30, 2009	7,460,102	100%	-
<b>VRS - School Board:</b>			
June 30, 2011	1,000,556	100%	113,686
June 30, 2010	1,098,411	100%	113,440
June 30, 2009	1,144,725	100%	113,194

**Notes to Basic Financial Statements, Continued**

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Board's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2009 actuarial valuation was 20 years.

***Funded Status of Pension Plans***

Following is a table showing the funding status of the defined benefit pension plans in which the City participates as of the most recent actuarial valuation date for each plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>CITY-ADMINISTERED PLANS:</b>						
<i>Portsmouth Supplemental Retirement System:</i>						
7/1/2011	\$ 26,037,407	70,172,896	44,135,489	37%	2,214,000	1993%
<i>Fire and Police Retirement System:</i>						
7/1/2011	\$ 81,076,403	217,251,227	136,174,824	37%	9,821,000	1387%
<b>VIRGINIA RETIREMENT SYSTEM PLANS:</b>						
<i>City of Portsmouth Employees:</i>						
6/30/2010	\$ 199,413,492	242,691,341	43,277,849	82%	64,578,829	67%
<i>School Board Nonprofessional Employees:</i>						
6/30/2010	\$ 26,098,503	34,765,427	8,666,924	75%	8,053,701	108%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

**(8) OTHER POST EMPLOYMENT BENEFITS (OPEB)*****Plan Description - The City of Portsmouth Retired Employees Health Care Program***

The City of Portsmouth Retired Employee Health Care Program is a single-employer defined benefit healthcare program administered by the City of Portsmouth. The Program provides medical and dental insurance benefits to eligible retirees and their families through the same self-insured program that provides coverage to active City employees. The City of Portsmouth Public Schools (School Board) administers a similar defined benefit healthcare plan. In connection with this, the City has established a plan to provide post-employment benefits other than pensions as defined in Section 15.2-1545 of the Code of Virginia.

**Notes to Basic Financial Statements, Continued**

Separate stand-alone statements are not issued for either plan.

*Funding Policy.* The contribution requirements of plan members and the City are established and may be amended by the City Council. The School Board has the authority to establish and amend the funding policy of their plan. The required contribution is based on projected pay-as-you-go financing requirements, with the potential for additional amounts to prefund benefits as determined annually by the City Council. For Fiscal Year 2011, the City contributed \$3,180,817 to the program, all for current premiums (approximately 54% of total premiums), and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$2,710,503 (approximately 46% of total premiums) through required monthly contributions that vary from \$207.35 to \$845.99 depending on the retiree's choice of Health Maintenance Organization or Preferred Provider coverage, the retiree's age, and whether the coverage is for the retiree only or includes family members.

*Annual OPEB Cost and net OPEB Obligation.* The City's and School's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's and School's OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's OPEB obligation for the program:

	<b>City</b>	<b>School Board</b>
Annual required contribution	\$ 16,455,303	1,015,447
Interest on net OPEB obligation		(43,661)
Adjustment to annual required contribution		33,431
Annual OPEB cost	16,455,303	1,005,217
Contributions made	5,680,817	1,000,000
Increase (decrease) in net OPEB obligation (asset)	10,774,486	5,217
Net OPEB obligation (asset) at beginning of year	32,804,926	(592,670)
Net OPEB obligation (asset) at end of year	\$ 43,579,412	(587,453)

The fiscal year ended June 30, 2011 was the fourth year for which an actuarially determined ARC had been calculated for the City of Portsmouth Retired Employees Health Care Program. Fiscal year 2011 actuarially determined ARC was calculated to be \$16,455,303. The City's contribution to the ARC was \$5,680,817, \$4,113,434, \$5,129,193 and \$3,200,000 for fiscal years 2011, 2010, 2009 and 2008 respectively.

## Notes to Basic Financial Statements, Continued

The City's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for Fiscal Year 2011 is as follows:

## City of Portsmouth

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$14,981,028	21.4%	\$11,781,028
6/30/2009	13,811,219	37.1%	\$20,463,056
6/30/2010	16,455,303	24.9%	\$32,804,926
6/30/2011	16,455,303	34.5%	\$43,579,412

## School Board

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/2008	\$ 486,533	176%	\$(371,495)
6/30/2009	1,004,077	125%	\$(617,670)
6/30/2010	1,025,000	98%	\$(592,670)
6/30/2011	1,005,217	99%	\$(587,453)

*Funded Status and Funding Progress.*

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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## City of Portsmouth:

7/1/2010	\$ -	\$221,375,695	221,375,695	0.0%	78,275,583	282.8%
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## School Board:

7/1/2009	\$2,415,950	\$ 11,623,323	9,207,373	21.0%	95,870,390	10.0%
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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques

**Notes to Basic Financial Statements, Continued**

that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.5% inflation (payroll growth) rate, a 4.0% investment rate of return, relating it to the City's rate of investment return on its general unrestricted cash assets due to the unfunded status of the program's actuarial accrued liability; an annual healthcare cost increase rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent for the year beginning July 1, 2018 and thereafter. It was assumed that 60% of future retirees would elect medical coverage and that the City of Portsmouth would maintain a consistent level of cost sharing for benefits with retirees in the future. The calculation of the ARC of \$16,455,303 for fiscal year 2011 is the amount determined under the actuarial cost method selected and consists of the normal cost plus amortization of the unfunded actuarial accrued liability (UAAL, or the excess of the past service liability over the actuarial value of assets). The UAAL is amortized as a level percent of projected payroll on a closed basis over a period of 28 years in developing the annual required contribution.

**(9) DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time permanent City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the participants. The assets are not included in the accompanying financial statements.

**(10) INTERFUND BALANCES AND TRANSFERS****Due From/To Other Funds**

Individual fund interfund receivable and payable balances at June 30, 2011 are as follows:

Due from Other Funds	Due to Other Funds					Total
	Nonmajor Governmental Funds	Public Utility Fund	Parking Authority	Nonmajor Enterprise Funds		
	\$	\$	\$	\$		
General Fund	\$ 1,712,068	-	\$ 214,964	259,824	2,186,856	
Public Utility Fund	-	58,295	-	-	58,295	
	1,712,068	58,295	214,964	259,824	2,245,151	

These interfund balances result from short-term operational borrowing and are due within one year.

**Notes to Basic Financial Statements, Continued****Due From/To Primary Government/Component Units**

Amounts due at June 30, 2011 between the City and the Component Units are as follows:

Due From (To) Component Units	Primary Government			Total
	Economic Development Authority	School Board		
General Fund	\$ -	80,837		80,837
Nonmajor governmental funds	-	(598,424)		(598,424)
	\$ -	(517,587)		(517,587)

The Statement of Net Assets reflects \$80,837 as due from component units and \$598,424 as due to component units for a net due to component units of \$517,587 as noted in the above table.

**Transfers From/To Other Funds**

Individual fund interfund transfers for the primary government were made for operating as well as capital purposes. These interfund transfers for the year ended June 30, 2011 are as follows:

Transfers to:	Transfers from:						Total
	General Fund	Nonmajor Governmental Funds	Parking Authority Fund	Public Utility Fund	Internal Service Funds		
General Fund	\$ -	645,550	-	7,500,000	-		8,145,550
Capital Improvements Fund	3,818,803	3,544,223	20,646	-	-		7,383,672
Nonmajor governmental funds	6,524,482	63,530	-	-	-		6,588,012
Public Utility Fund	125,559	-	-	-	-		125,559
Parking Fund	384,135	-	-	-	-		384,135
Nonmajor enterprise funds	912,730	-	-	-	-		912,730
Internal Service Funds	89,116	384,640	-	-	2,500,000	2,500,000	2,973,756
Total	\$ 11,854,825	4,637,943	20,646	7,500,000	2,500,000		26,513,414

**Notes to Basic Financial Statements, Continued****(11) DUE FROM/TO OTHER GOVERNMENTS****Due From Other Governments**

Amounts due from other governments at June 30, 2011 are as follows:

	Federal	State	Total
<b>Governmental activities:</b>			
General Fund:			
Sales and use tax	\$ -	544,639	544,639
Personal property tax relief	-	9,862,962	9,862,962
Correctional facilities block grant	-	263,389	263,389
Constitutional officers' support	-	732,881	732,881
Other	-	110,847	110,847
<b>Total General Fund</b>	<b>-</b>	<b>11,514,718</b>	<b>11,514,718</b>
Nonmajor governmental funds:			
Community Services Act Fund	-	328,643	328,643
Stimulus Fund	651,775	-	651,775
Social Services Fund	-	2,115,511	2,115,511
Grants Fund	41,673	138,557	180,230
Community Development Fund	358,942	-	358,942
<b>Total nonmajor governmental funds</b>	<b>400,615</b>	<b>2,582,711</b>	<b>3,635,101</b>

**(12) DEFERRED AND UNEARNED REVENUES**

Deferred and unearned revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

Deferred and unearned revenues for the primary government's fund-based financial statements and government-wide financial statements are comprised of the following:

	Governmental Funds					Business-Type	
	Capital		Nonmajor			Governmental	Activity-
	General	Improvements	Governmental	Funds	Total		
Property taxes	\$ 6,920,749	-	-	-	6,920,749	-	-
Parking space rentals	-	-	-	-	-	-	55,539
Unearned grant revenue	-	-	-	-	-	-	-
Notes receivable	-	4,152	-	-	4,152	4,152	-
Stormwater fees	-	-	240,736	240,736	240,736	-	-
<b>Total deferred and unearned revenues</b>	<b>\$ 6,920,749</b>	<b>4,152</b>	<b>240,736</b>	<b>7,165,637</b>	<b>4,152</b>	<b>4,152</b>	<b>55,539</b>

**Notes to Basic Financial Statements, Continued**

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**(13) COMMITMENTS****Landfill Closure and Postclosure Care Cost**

State and federal laws and regulations require the City to place a final cover on its Craney Island landfill site when it stops accepting waste and then perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$6,589,612 reported as landfill closure and postclosure care liability at June 30, 2011 represents the cumulative amount reported to date based on the use of 54.3 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$5,545,953 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Actual costs may be higher due to inflation, changes in technology or changes in laws and regulations. The remaining landfill life is estimated to be 40.9 years. The City is required by Federal and State statutes to prepare a Local Government Financial Test Worksheet to demonstrate how closure and postclosure care financial assurance requirements will be met. The encumbrances for the Capital Improvement Fund at June 30, 2011 is \$7,401,799.

**(14) CONTINGENT LIABILITIES****Litigation**

Various claims and lawsuits are pending against the City. The City is vigorously defending all cases as it expects no losses will be incurred which would have a material effect on the City's financial position.

**Federally Assisted Grant Programs**

The City participates in a number of federally assisted grant programs. Although the City has been audited in accordance with the provisions of OMB Circular A-133, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, City management believes such disallowances, if any, will not be significant.

**Joint Ventures*****Hampton Roads Regional Jail Authority***

The City has agreed to pay its proportionate share of the debt service, issued by the Hampton Roads Regional Jail Authority (the Jail Authority), subject to the appropriation of funds for such purpose, if the Jail Authority lacks sufficient funds to do so. The outstanding balance as of June 30, 2011 is \$40,990,000. The purpose of the Jail Authority is to operate a jail facility in the City to hold prisoners primarily from member jurisdictions and from other jurisdictions on a space available basis. The Jail Authority is governed by a twelve-member board consisting of three representatives from each member jurisdiction, namely the City Manager, the Sheriff, and one member of the City Council (as designated by the City Council). The agreement of the member jurisdictions to pay is not legally binding and is allocated as follows: Portsmouth, 21.43%; Hampton, 22.00%; Newport News, 25.14%; and Norfolk, 31.43%. No payments were made under the provisions of this agreement during the year ended June 30, 2011.

Complete, audited financial statements for the Jail Authority can be obtained from the administrative office at 2690 Elmhurst Lane, Portsmouth, Virginia 23701.

**(15) Self-Insurance Programs*****City***

The City is self-insured for exposures to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; terrorist acts; and natural disasters. The

**Notes to Basic Financial Statements, Continued**

City uses internal service funds such as, the Risk Management Fund to account for and finance its uninsured risks of loss and the Health Insurance Fund to pay health insurance premiums. The Risk Management Fund pays insurance premiums and provides for payment of approved claims for workers' compensation, general liability, fidelity, wharfingers, hull and machinery and property. The property deductible is \$100,000 per occurrence with \$308,308,285 loss limit per occurrence. The City purchases commercial excess insurance policies for workers' compensation and general liability. In fiscal year 2011, the City experienced one claim, fire loss to the Main Public Library, that exceeded the Self-Insured Retention.

All funds of the City participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The risk management claims liability of \$12,649,062 (undiscounted) reported in the fund at June 30, 2011 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount due within one year is \$2,665,726. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Oliver Wyman Actuarial Consulting, Incorporated as of June 30, 2011 to compute this liability.

Changes in the fund's claims liability amount in fiscal years 2011 and 2010 were:

	2011	2010
Risk management claims payable at beginning of year	\$ 14,041,922	14,386,836
Risk management claims expense and changes in estimates	31,155	2,369,656
Risk management claims payments, net	(1,424,015)	(2,714,570)
Risk management claims payable at end of year	\$ 12,649,062	14,041,922

The City is also exposed to the risk of loss for employee and retired employee medical benefits. Effective January 1, 2001, the City established a self-insured health care benefits program for all City employees and retired employees. These benefits are accounted for in the Health Insurance Fund, an internal service fund. Certain claims expenses paid on behalf of each employee during a single policy year are covered by excess loss insurance with a specific stop-loss limit of \$175,000 depending on the specific medical plan. Claims processing and payments for all medical claims are made through third party administrators. The computed medical claims liability as of June 30, 2011 is \$1,303,690 (undiscounted) and is due within one year. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Human Resource Consulting, Incorporated as of June 30, 2011 to compute this liability.

Changes in the medical claim liability amount in fiscal years 2011 and 2010 were:

	2011	2010
Medical claims payable at beginning of year	\$ 1,328,955	1,299,037
Medical claims expense and changes in estimates	16,477,594	15,943,497
Medical claims payments	(16,502,859)	(15,913,579)
Medical claims payable at end of year	\$ 1,303,690	1,328,955

**Notes to Basic Financial Statements, Continued*****School Board***

The School Board uses its Risk Management and Insurance Fund, an internal service fund, to account for and finance its uninsured risks of loss and to pay insurance premiums. The fund services all claims for risk of loss to which the School Board is exposed, including worker's compensation, automobile and general liability. A loss analysis was conducted by Mercer Oliver Wyman Actuarial Consulting, Inc on this fund. The actuarially computed liability as of June 30, 2011 was determined to be \$2,370,998 (undiscounted).

Changes in the school's claim liability amount in fiscal years 2011 and 2010 were:

	2011	2010
Claims payable at beginning of year	\$ 2,510,742	2,482,841
Claims and changes in estimates	663,102	820,101
Claim payments	(802,846)	(792,200)
Claims payable at end of year	\$ 2,370,998	2,510,742

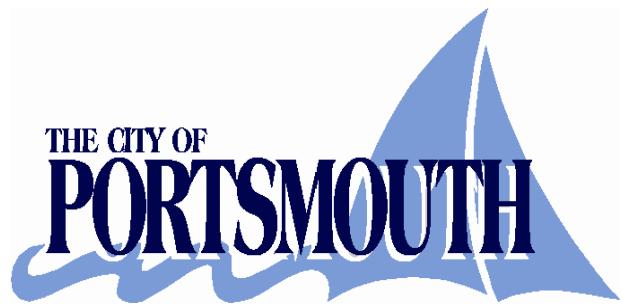
**(16) RELATED ORGANIZATIONS**

The City Council is responsible for appointing members of the board of the Portsmouth Redevelopment and Housing Authority, but the City's accountability for the Authority does not extend beyond making these appointments and it is both operationally and financially, independent of the City.

The City Council is responsible for appointing members of the board of the New Port Community Development Authority, but the City's accountability for the Authority does not extend beyond making these appointments and it is both operationally and financially, independent of the City.

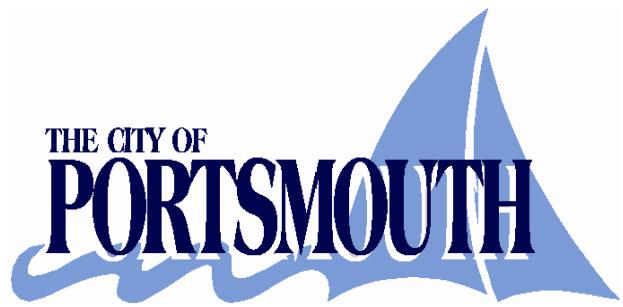
**(17) RESTATEMENT**

Due to the implementation of GASB 54 and the criteria for classifying Special Revenue funds and the dissolution of the Shuttle Bus Fund, the beginning balance of the 'Other Governmental Funds' was restated to \$22,433,737 from \$22,432,722 to account for the negative \$1,015 fund balance at the end of fiscal year 2010 in the fund. As a result, Exhibit B – Statement of Activities reports Governmental Activities, Net Assets, beginning of year as restated \$227,910,725 instead of the prior year ending balance of \$227,909.



**Required Supplementary Information  
Other than Management's Discussion and Analysis**

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**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-1**
**Budgetary Comparison Schedule**
**Schedule of Revenues and Other Financing Sources**
**General Fund**
**Year ended June 30, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
<b>Taxes:</b>				
General property taxes:				
Real property - current	\$ 86,046,782	86,046,782	87,315,805	1,269,023
Real property - delinquent	4,000,000	4,000,000	2,925,497	(1,074,503)
Real property - Public Service Corporation	2,074,391	2,074,391	1,321,777	(752,614)
Personal property - current	15,562,884	15,562,884	16,856,008	1,293,124
Personal property - delinquent	3,936,258	3,936,258	2,708,916	(1,227,342)
Personal property - Public Service Corporation	1,167,000	1,167,000	2,429,146	1,262,146
Machine and tool taxes	2,020,725	2,020,725	1,009,568	(1,011,157)
Penalties and other charges	1,271,419	1,271,419	1,545,620	274,201
Interest	458,275	458,275	475,694	17,419
Total general property taxes	116,537,734	116,537,734	116,588,031	50,297
Other local taxes:				
Admission and amusement taxes	264,911	264,911	279,728	14,817
Bank franchise taxes	561,657	561,657	502,296	(59,361)
Business and occupational license taxes	5,852,032	5,852,032	5,745,579	(106,453)
Cigarette taxes	3,165,833	3,165,833	2,849,698	(316,135)
Licensing fees - current	1,585,745	1,585,745	1,705,209	119,464
Licensing fees - delinquent	476,342	476,342	509,005	32,663
Lodging taxes	835,890	835,890	747,360	(88,530)
Motor vehicle license fee	5,473	5,473	964	(4,509)
Recordation taxes	809,994	809,994	779,148	(30,846)
Restaurant food taxes	6,283,537	6,283,537	6,249,521	(34,016)
Sales and use tax - local	5,623,854	5,623,854	6,009,354	385,500
Short-term rental taxes	37,653	37,653	33,069	(4,584)
Miscellaneous	-	-	540	540
Telecommunications	9,441,053	9,441,053	9,482,903	41,850
Total other local taxes	34,943,974	34,943,974	34,894,374	(49,600)
Utility taxes:				
Electricity taxes	4,186,802	4,186,802	4,116,360	(70,442)
Gas taxes	1,444,517	1,444,517	1,407,204	(37,313)
Water taxes	2,097,097	2,097,097	2,185,687	88,590
Total utility taxes	7,728,416	7,728,416	7,709,251	(19,165)
<b>Total taxes</b>	<b>159,210,124</b>	<b>159,210,124</b>	<b>159,191,656</b>	<b>(18,468)</b>
<b>Intergovernmental revenue:</b>				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	1,000	1,000	3,505	2,505
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	257,000	257,000	360,905	103,905
Rolling stock taxes	24,000	24,000	35,071	11,071
Vehicle rental tax	150,000	150,000	154,977	4,977

(continued)

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-1, Continued**
**Budgetary Comparison Schedule**
**Schedule of Revenues and Other Financing Sources**
**General Fund**
**Year ended June 30, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
Commonwealth of Virginia, continued:				
Categorical aid - shared costs:				
Circuit Court Clerk	\$ 855,179	\$ 996,249	896,925	(99,324)
City Registrar	33,000	33,000	53,797	20,797
City Sheriff	5,727,799	5,727,799	5,713,636	(14,163)
City Treasurer	267,291	267,291	273,951	6,660
Commissioner of Revenue	247,257	247,257	244,034	(3,223)
Commonwealth Attorney	1,535,016	1,776,266	1,515,492	(260,774)
DMV select	45,000	45,000	70,225	25,225
Escheated property	2,300	2,300	-	(2,300)
Other categorical aid:				
Correctional facilities block grant	1,217,000	1,217,000	964,780	(252,220)
Law enforcement grant	5,996,757	5,996,757	5,997,216	459
Library funds - books	191,000	191,000	154,709	(36,291)
Street and highway maintenance	9,175,000	9,532,135	9,672,047	139,912
Other	-	-	-	-
Total Commonwealth of Virginia	35,587,561	36,327,016	35,974,232	(352,784)
Federal -				
FEMA reimbursement	-	-	-	-
Total Federal	-	-	-	-
<b>Total intergovernmental revenue</b>	<b>35,587,561</b>	<b>36,327,016</b>	<b>35,974,232</b>	<b>(352,784)</b>
Charges for services:				
Ambulance fees - current	2,001,203	2,001,203	1,358,476	(642,727)
Ambulance fees - delinquent	-	-	96,730	96,730
Animal crematory fees	1,000	1,000	-	(1,000)
Circuit Court Clerk fees	15,000	15,000	15,354	354
City Sheriff fees	19,000	19,000	17,696	(1,304)
Concession fees	14,000	14,000	10,796	(3,204)
Courthouse maintenance fees	55,000	55,000	57,227	2,227
Courthouse replacement fees	-	-	73,144	73,144
False alarm fees	29,000	29,000	40,840	11,840
Fire report fees	2,000	2,000	1,830	(170)
Fire and EMS attendance fees	15,000	15,000	11,550	(3,450)
Library fines and fees	58,000	58,000	36,208	(21,792)
DNA sample	1,000	1,000	769	(231)
Merchandise commissions	1,800	1,800	1,792	(8)
Erosion and sediment control	-	-	127,408	127,408
Museum admission charges	478,832	478,832	245,679	(233,153)
Cable TV local access channel fees	25,000	25,000	97,096	72,096
Police record fees	32,000	32,000	33,679	1,679
Recreation activity fees	195,600	195,600	148,861	(46,739)
Rental inspection fees	72,000	72,000	55,820	(16,180)
Inspections	23,000	23,000	60,648	37,648
Street closure applications	-	-	220	220
Plans and specifications	10,000	10,000	1,900	(8,100)
Swimming fees	-	-	1,149	1,149
Vacant structure	500	500	2,700	2,200
Miscellaneous recoveries	-	-	-	-
<b>Total charges for services</b>	<b>3,048,935</b>	<b>3,048,935</b>	<b>2,497,572</b>	<b>(551,363)</b>

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-1, Continued**
**Budgetary Comparison Schedule**
**Schedule of Revenues and Other Financing Sources**
**General Fund**
**Year ended June 30, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
				<b>Positive (Negative)</b>
<b>Investment income-</b>				
Investment income	\$ 94,000	94,000	12,310	(81,690)
<b>Total investment income</b>	<b>94,000</b>	<b>94,000</b>	<b>12,310</b>	<b>(81,690)</b>
Recovered costs:				
City garage fund	467,636	467,636	486,342	18,706
Information technology fund	270,133	270,133	280,938	10,805
Court appointed attorneys	1,300	1,300	1,049	(251)
Golf fund	212,034	212,034	220,516	8,482
Health department	57,000	57,000	58,653	1,653
Health insurance fund	22,935	22,935	23,852	917
Law library fund	4,203	4,203	4,372	169
Lockup fees - federal prisoners	470,750	470,750	101,935	(368,815)
Behavioral health services fund	672,346	672,346	699,244	26,898
DEA	-	-	25,677	25,677
Training academy upkeep	49,000	49,000	25,000	(24,000)
Parking authority	98,221	98,221	102,150	3,929
Citywide telephone charges	19,917	19,917	16,439	(3,478)
Fire watch/EMS	-	-	4,500	4,500
Postage	417,223	417,223	403,146	(14,077)
Public utility fund	844,649	844,649	898,432	53,783
Risk management fund	44,630	44,630	46,416	1,786
School Board salaries	50,000	50,000	50,000	-
Social security payments - jail	12,392	12,392	12,600	208
Stormwater management fund	114,830	114,830	119,424	4,594
Social services fund	520,000	520,000	121,554	(398,446)
VDOT salaries	20,000	20,000	-	(20,000)
Waste management fund	218,893	218,893	227,650	8,757
Other jail/prisoner recovered costs	-	-	48,187	48,187
Insurance recoveries	-	-	3,405	3,405
Other recovered costs	200,000	200,000	103,580	(96,420)
<b>Total recovered costs</b>	<b>4,788,092</b>	<b>4,788,092</b>	<b>4,085,061</b>	<b>(703,031)</b>
Fines and forfeitures:				
Circuit Court fines	11,000	11,000	11,055	55
Conviction fees	132,000	132,000	156,424	24,424
General District Court fines	31,000	31,000	404,006	373,006
Overweight vehicle fines	1,000	1,000	-	(1,000)
Juvenile Court fines	3,000	3,000	1,336	(1,664)
<b>Total fines and forfeitures</b>	<b>178,000</b>	<b>178,000</b>	<b>572,821</b>	<b>394,821</b>
Licenses and permits:				
Bicycle licenses	1,000	1,000	340	(660)
Building plan review fees	17,500	17,500	22,150	4,650
Building reinspection fees	4,500	4,500	8,450	3,950
Building structure permits	206,000	206,000	380,331	174,331
Dog impounding fees	2,000	2,000	2,790	790
Dog licenses	31,500	31,500	29,826	(1,674)
Electrical inspection fees	12,100	12,100	19,700	7,600
Electrical permits	93,000	93,000	89,248	(3,752)
Elevator inspection fees	3,600	3,600	2,025	(1,575)
Hauling and permit fees	77,000	77,000	111,680	34,680

(continued)

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-1, Continued**
**Budgetary Comparison Schedule**
**Schedule of Revenues and Other Financing Sources**
**General Fund**
**Year ended June 30, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
				<b>Positive (Negative)</b>
<b>Licenses and permits, continued:</b>				
License transfer fees	\$ 2,400	2,400	2,563	163
Mechanical inspection fees	3,300	3,300	1,145	(2,155)
Mechanical permits	122,000	122,000	172,983	50,983
Miscellaneous permits	33,900	33,900	18,027	(15,873)
Penalties on licenses	110,000	110,000	61,245	(48,755)
Plumbing inspection fees	600	600	-	(600)
Plumbing permits	48,000	48,000	72,505	24,505
Restricted parking permits	3,700	3,700	3,830	130
Right of way permits	105,000	105,000	82,068	(22,932)
Sign permit fees	4,300	4,300	5,050	750
Site plan review fees	11,700	11,700	7,250	(4,450)
State surcharge on permits	2,900	2,900	3,109	209
Taxi operators permits	1,800	1,800	1,600	(200)
Yard sale permits	3,900	3,900	3,850	(50)
Zoning and plat fees	37,725	37,725	15,387	(22,338)
<b>Total licenses and permits</b>	<b>939,425</b>	<b>939,425</b>	<b>1,117,152</b>	<b>177,727</b>
<b>Use of property:</b>				
Rental of antenna sites	75,000	75,000	31,772	(43,228)
Rental of recreation facilities	38,000	38,000	32,690	(5,310)
Payments from Economic Development Authority	125,000	125,000	125,003	3
Rental of general properties	1,983,000	1,983,000	1,738,942	(244,058)
<b>Total use of property</b>	<b>2,221,000</b>	<b>2,221,000</b>	<b>1,928,407</b>	<b>(292,593)</b>
<b>Miscellaneous:</b>				
Community share - incentive fund	500	500	1,116	616
Admin fee - state income tax	2,200	2,200	1,303	(897)
Admin fee - RE	421,000	421,000	480,181	59,181
Admin fee - PP	1,153,400	1,153,400	999,045	(154,355)
Admin fee - Parking	64,500	64,500	73,030	8,530
Admin fee - EMS	2,200	2,200	8,231	6,031
Admin fee - Gen	2,400	2,400	180	(2,220)
Sale of abandoned property	5,000	5,000	1,293	(3,707)
Other revenue	10,897	10,898	109,294	98,396
Unclaimed property tax refunds	15,000	15,000	82,306	67,306
Payments in lieu of taxes:				
Housing Authority	26,000	26,000	47,809	21,809
Regional Jail	496,000	496,000	503,129	7,129
Virginia Port Authority	363,000	564,030	398,708	(165,322)
Public utility fund	1,008,568	1,008,568	1,008,568	-
Payment from Portsmouth Public Schools	267,204	267,204	168,107	(99,097)
<b>Total miscellaneous revenue</b>	<b>3,837,869</b>	<b>4,038,900</b>	<b>3,882,300</b>	<b>(156,600)</b>
<b>Total revenues</b>	<b>209,905,006</b>	<b>210,845,492</b>	<b>209,261,511</b>	<b>(1,583,981)</b>

(continued)

**CITY OF PORTSMOUTH, VIRGINIA****Schedule I-1, Continued****Budgetary Comparison Schedule****Schedule of Revenues and Other Financing Sources****General Fund****Year ended June 30, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
				<b>Positive (Negative)</b>
Other financing sources:				
Premium on debt issued	-	-	3,153,792	3,153,792
Proceeds - Master lease	-	-	476,812	476,812
Proceeds - Bonds 2010D	-	-	29,970,000	29,970,000
Proceeds - 2011 GO Refunding bonds	-	-	13,855,000	13,855,000
Proceeds - Bonds 2010B (BABS)	-	85,149	-	(85,149)
Proceeds - Bonds Premium 2010C	-	117,080	-	(117,080)
Proceeds - Bonds Premium 2010A	-	10,644	-	(10,644)
Transfers from other funds:				
Donations fund	-	25,000	25,000	-
BHS	338,000	338,000	338,000	-
Parking Authority	335,835	335,835	-	(335,835)
Stormwater Management	282,549	282,549	282,550	1
Public utility fund	7,500,000	7,500,000	7,500,000	-
<b>Total other financing sources</b>	<b>8,456,384</b>	<b>8,694,257</b>	<b>55,601,154</b>	<b>46,906,897</b>
<b>Total revenues and other financing sources</b>	<b>\$ 218,361,390</b>	<b>219,539,749</b>	<b>264,862,665</b>	<b>45,322,916</b>

Unaudited - see accompanying independent auditors' report.

**CITY OF PORTSMOUTH, VIRGINIA****Schedule I-2****Budgetary Comparison Schedule****Schedule of Expenditures and Other Financing Uses****General Fund****Year ended June 30, 2011**

		<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
General government:					
Administration:					
Legislative:					
City council	\$ 451,128	424,901	366,703	58,198	
City clerk	315,152	315,152	302,235	12,917	
Total legislative	766,280	740,053	668,938	71,115	
Executive:					
City manager	1,004,605	970,906	788,968	181,938	
Management and legislative services	352,283	352,283	365,718	(13,435)	
Communications and marketing	1,496,329	1,484,905	1,483,885	1,020	
Total executive	2,853,217	2,808,094	2,638,571	169,523	
Boards and commissions:					
Civil service commission	64,400	64,400	73,841	(9,441)	
General registrar	522,123	544,272	521,056	23,216	
Total boards and commissions	586,523	608,672	594,897	13,775	
Total administration	4,206,020	4,156,819	3,902,406	254,413	
City attorney	1,337,198	1,337,198	1,429,759	(92,561)	
Human resource management	946,335	923,765	810,938	112,827	
Financial administration:					
Commissioner of revenue	1,427,287	1,389,975	1,343,729	46,246	
City assessor	764,158	743,490	699,134	44,356	
City treasurer	1,785,490	1,785,490	1,713,030	72,460	
Procurement and risk management	1,868,769	1,923,186	1,814,195	108,991	
Finance	1,101,066	1,100,469	1,051,074	49,395	
Total financial administration	6,946,770	6,942,610	6,621,162	321,448	
Public transportation	2,775,754	2,775,754	2,775,752	2	
<b>Total general government</b>	<b>16,212,077</b>	<b>16,136,146</b>	<b>15,540,017</b>	<b>596,129</b>	
Nondepartmental:					
Miscellaneous	3,757,070	9,773,607	9,486,425	287,182	
Contingency	531,199	505,199	194,964	310,235	
Support to civic organizations	331,206	331,206	294,596	36,610	
<b>Total nondepartmental</b>	<b>4,619,475</b>	<b>10,610,012</b>	<b>9,975,985</b>	<b>634,027</b>	

(continued)

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-2, Continued**
**Budgetary Comparison Schedule**
**Schedule of Expenditures and Other Financing Uses**
**General Fund**
**Year ended June 30, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
Judicial:				
Circuit court judges	\$ 572,511	567,777	543,890	23,887
Circuit court clerk	1,211,352	1,340,115	1,316,344	23,771
Magistrate	14,096	14,096	12,725	1,371
General district court	51,052	51,052	34,921	16,131
Juvenile and domestic relations court	25,693	25,693	18,254	7,439
Juvenile court services	1,188,306	1,188,306	1,090,181	98,125
Commonwealth's attorney	2,248,762	2,510,946	2,487,346	23,600
Sheriff	12,099,360	12,099,360	12,158,782	(59,422)
<b>Total judicial</b>	<b>17,411,132</b>	<b>17,797,345</b>	<b>17,662,443</b>	<b>134,902</b>
Public safety:				
Police	32,048,000	30,856,109	29,153,088	1,703,021
E-911 communications	2,295,360	2,204,373	2,070,461	133,912
Operations Support bureau	62,702	62,702	289,227	(226,525)
Admin & Support bureau	-	-	327,680	(327,680)
Field Operations bureau	15,210	15,210	30,650	(15,440)
Animal control & security	764,436	745,761	712,493	33,268
Fire, rescue, and emergency services	29,404,612	27,547,894	26,820,633	727,261
<b>Total public safety</b>	<b>64,590,320</b>	<b>61,432,049</b>	<b>59,404,232</b>	<b>2,027,817</b>
Public works:				
Engineering	1,530,479	1,402,141	1,291,918	110,223
Streets and highways	3,702,988	4,115,335	3,902,220	213,115
Mosquito control	418,080	399,651	374,616	25,035
Traffic engineering	2,737,792	2,737,792	2,391,125	346,667
General services:				
Properties management	3,355,673	3,309,441	3,301,272	8,169
Utilities	1,761,000	1,761,000	1,820,654	(59,654)
Rental of land and buildings	694,364	694,364	682,403	11,961
Storeroom	-	-	26,009	(26,009)
Harbor Center pavilion	317,918	317,918	355,158	(37,240)
<b>Total public works</b>	<b>14,518,294</b>	<b>14,737,642</b>	<b>14,145,375</b>	<b>592,267</b>
<b>Public health and welfare - Health department</b>	<b>1,199,327</b>	<b>1,199,327</b>	<b>1,147,052</b>	<b>52,275</b>
Parks, recreation, and cultural:				
Parks and recreation - administration	4,628,284	4,406,469	4,191,729	214,740
Parks and recreation - recreation	301,076	341,138	246,820	94,318
Parks	1,969,334	1,967,574	1,601,714	365,860
Museums	1,949,473	1,885,914	1,833,417	52,497
Public library	2,360,247	2,291,756	2,233,197	58,559
<b>Total parks, recreation, and cultural</b>	<b>11,208,414</b>	<b>10,892,851</b>	<b>10,106,877</b>	<b>785,974</b>

(continued)

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-2, Continued**

**Budgetary Comparison Schedule**  
**Schedule of Expenditures and Other Financing Uses**  
**General Fund**  
**Year ended June 30, 2011**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Community development:</b>				
Permits and inspections	\$ 2,717,199	2,639,979	2,502,325	137,654
Economic development	944,754	900,904	849,075	51,829
Planning	1,466,269	1,466,269	1,348,672	117,597
<b>Total community development</b>	<b>5,128,222</b>	<b>5,007,152</b>	<b>4,700,072</b>	<b>307,080</b>
<b>Education - Payments to school board</b>	<b>48,171,651</b>	<b>48,171,651</b>	<b>48,171,651</b>	<b>-</b>
<b>Debt service:</b>				
Principal	11,702,957	10,915,761	9,843,352	1,072,409
Interest and fiscal charges	10,943,226	10,943,226	11,595,061	(651,835)
Costs of issuance	25,000	237,874	736,957	(499,083)
<b>Total debt service</b>	<b>22,671,183</b>	<b>22,096,861</b>	<b>22,175,370</b>	<b>(78,509)</b>
<b>Total expenditures</b>	<b>205,730,095</b>	<b>208,081,036</b>	<b>203,029,074</b>	<b>5,051,962</b>
<b>Other financing uses:</b>				
Transfers to other funds:				
Behavioral health services fund	\$ 518,608	646,645	646,645	-
Social services fund	5,884,148	6,093,785	4,463,171	1,630,614
Courts cap reserve	1,818,803	1,818,803	1,818,803	-
Comprehensive services fund	3,151,095	3,155,493	1,381,991	1,773,502
Donations fund	47,000	24,215	-	24,215
Stormwater management fund	-	16,671	16,671	-
Grants fund	-	16,004	16,004	-
Public utility fund	-	125,559	125,559	-
Waste management fund	-	59,688	59,688	-
City garage fund	-	35,755	35,755	-
Information technology fund	-	49,077	49,077	-
Risk management fund	-	4,284	4,284	-
Parking authority	377,331	384,135	384,135	-
Golf	834,310	853,042	853,042	-
Capital improvement fund	-	2,000,000	2,000,000	-
<b>Total transfers to other funds</b>	<b>12,631,295</b>	<b>15,283,156</b>	<b>11,854,825</b>	<b>3,428,331</b>
Payment to escrow agent	-	-	46,778,674	(46,778,674)
<b>Total other financing uses</b>	<b>12,631,295</b>	<b>15,283,156</b>	<b>58,633,499</b>	<b>3,428,331</b>
<b>Total expenditures and other financing uses</b>	<b>\$ 218,361,390</b>	<b>\$ 223,364,192</b>	<b>\$ 261,662,573</b>	<b>8,480,293</b>

Unaudited - see accompanying independent auditors' report.

**CITY OF PORTSMOUTH, VIRGINIA****Schedule I-3****Budgetary Comparison Schedule****Note to Required Supplementary Information****General Fund****Year ended June 30, 2011**

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The budgetary data reported in the required supplementary information reflects the approved City Budget as adopted by the City Council for the year ended June 30, 2010, as amended. The budget as adopted by the City Council may be amended by the City Council through supplemental appropriations or transfers, as necessary. The legal level of budgetary control rests at the fund level with the exception of the General Fund, which is appropriated at the activity or function level. In addition, the City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose within the same fund. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account to any item in the City budget provided that any such utilization from the emergency budget contingency is reported to the City Council at the next regular council meeting.

The General, Special Revenue, and all proprietary funds have legally adopted annual budgets with the exception of the Grants Fund, Stimulus Fund, Community Development Fund, and the Donations Fund. The Capital Projects Funds, Grants Fund, Stimulus Fund, Community Development Fund, and Donations Fund utilize project budgets in lieu of annual budgets.

The City employs encumbrance accounting under which obligations in the form of purchase orders, contracts, and other commitments for the expenditure or transfer out of funds are recorded in order to reserve that portion of the applicable appropriation in the governmental fund balance, since encumbrances do not constitute expenditures or liabilities. For outstanding encumbrances, the appropriation carries over into the following year. According to the City Code, unexpended, unencumbered appropriations lapse at the end of the fiscal year.

The General Fund's budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

**Required Supplementary Information (Unaudited)**  
**Schedule of Funding Progress for Defined Benefit Pension Plans**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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**I. CITY-ADMINISTERED PLANS:***A. Portsmouth Supplemental Retirement System:*

7/1/2011	\$ 26,037,407	70,172,896	44,135,489	37%	\$ 2,214,000	1993%
7/1/2010	27,465,940	73,797,071	46,331,131	37%	2,702,000	1715%
7/1/2009	30,844,205	73,446,501	42,602,296	42%	3,831,000	1112%
7/1/2008	44,887,703	73,205,749	28,318,046	61%	4,155,000	682%
7/1/2007	47,383,449	70,564,879	23,181,430	67%	4,354,000	532%
7/1/2006	44,984,706	67,253,150	22,268,444	67%	4,472,000	498%
7/1/2005	45,070,186	69,629,486	24,559,300	65%	4,821,000	509%

*B. Fire and Police Retirement System:*

7/1/2011	\$ 81,076,403	217,251,227	136,174,824	37%	\$ 9,821,000	1387%
7/1/2010	78,994,174	216,550,641	137,556,467	36%	10,531,000	1306%
7/1/2009	76,943,962	214,676,887	137,732,925	36%	11,048,000	1247%
7/1/2008	99,468,964	210,696,128	111,227,164	47%	11,615,000	958%
7/1/2007	99,524,229	202,807,233	103,283,004	49%	12,015,000	860%
7/1/2006	91,076,751	184,555,196	93,478,445	49%	11,642,000	803%
7/1/2005	87,799,085	173,938,719	86,139,634	50%	11,823,000	729%

**II. VIRGINIA RETIREMENT SYSTEM PLANS:***A. City of Portsmouth Employees:*

6/30/2010	\$ 199,413,492	242,691,341	43,277,849	82%	\$ 64,578,829	67%
6/30/2009	196,708,288	215,980,918	19,272,630	91%	64,429,140	30%
6/30/2008	192,508,238	203,073,948	10,565,710	95%	66,204,197	16%
6/30/2007	172,051,577	180,513,208	8,461,631	95%	63,792,347	13%

*B. School Board Nonprofessional Employees:*

6/30/2010	\$ 26,098,503	34,765,427	8,666,924	75%	\$ 8,053,701	108%
6/30/2009	26,438,978	32,184,146	5,745,168	82%	8,645,713	66%
6/30/2008	26,548,549	30,249,399	3,700,850	88%	8,007,998	46%
6/30/2007	24,480,702	27,907,908	3,427,206	88%	8,046,557	43%

Unaudited - see accompanying independent auditors' report.

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule I-5**
**Required Supplementary Information (Unaudited)**
**Schedule of Employer Contributions for Defined Benefit Pension Plans**

Year Ended June 30	Portsmouth Supplemental			Fire and Police		
	Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed	
2011	\$ 3,744,866	84%		\$ 13,341,174	96%	
2010	2,570,503	102%		11,384,382	111%	
2009	2,265,220	100%		10,895,934	99%	
2008	2,155,485	102%		9,814,500	102%	
2007	2,326,033	100%		9,277,615	96%	
2006	2,084,812	100%		8,583,893	100%	
2005	1,678,576	99%		8,544,079	99%	
2004	1,116,961	96%		5,790,202	97%	
2003	1,191,196	100%		5,758,510	100%	
2002	696,400	100%		4,241,278	100%	
2001	755,044	102%		4,510,105	100%	

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	Portsmouth Supplemental	Fire and Police	Virginia Retirement System
Valuation date	7/1/2011	7/1/2011	6/30/2010
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open	Level percent, open
Remaining amortization period	25 years	25 years	20 Years
Asset valuation method	Long-Range Yield	Long-Range Yield	Five-Year Smoothed Market Value
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	7.00%
Projected salary increases:			
City-Administered Plans	5.00%	6.00%	-
Virginia Retirement System:			
Non-LEO Employees	-	-	3.75 - 5.60%
LEO Employees	-	-	3.50 - 4.75%
Cost-of-living adjustments	3.00%	3.00%	2.50%

Unaudited - see accompanying independent auditors' report.

**CITY OF PORTSMOUTH, VIRGINIA****Schedule I-6****Required Supplementary Information (Unaudited)****Schedule of Funding Progress for Defined Other Post Employment Benefit Plans**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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**CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:**

7/1/2010	-	\$ 221,375,695	221,375,695	0%	78,275,583	283%
7/1/2009	-	221,375,695	221,375,695	0%	73,342,372	302%
7/1/2008	-	187,436,612	187,436,612	0%	77,011,285	243%

**SCHOOL BOARD PLAN:**

7/1/2009	2,415,950	\$ 11,623,323	9,207,373	21%	95,870,390	10%
7/1/2008	650,000	10,802,915	10,152,915	6%	95,870,390	11%

**Schedule of Employer Contributions for Defined Other Post Employment Benefit Plans**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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**CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:**

6/30/2011	\$ 16,455,303	35.0%
6/30/2010	16,455,303	25.0%
6/30/2009	13,811,219	37.1%
6/30/2008	14,981,028	21.4%

**SCHOOL BOARD PLAN:**

6/30/2011	\$ 1,005,217	99.0%
6/30/2010	1,025,000	98.0%
6/30/2009	1,004,007	125.0%
6/30/2008	486,533	176.0%

The fiscal year ended June 30, 2008 was the first year for which an actuarially determined AAL and ARC had been calculated for the City of Portsmouth Retired Employees Health Care Program, therefore, three prior years of history can be presented in the schedules on this page. Additional historical information will be added in future years.

## **Nonmajor Governmental Funds**

CITY OF PORTSMOUTH, VIRGINIA  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2011

Schedule 1-1

Special Revenue Funds										Permanent Fund - Cemetery		
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Stimulus	Comprehensive Services	Donations	Willet Hall	Recreation	Community Development	Total
Assets:												
Cash and temporary investments	\$ 2,596,955	16,654	-	1,660,525	891,765	4,502,430	213,868	2,994,389	524,072	225,065	80,941	1,453,535
Accounts receivable (net of allowance for uncollectibles \$375,563)	4,335	-	12,990	503,256	-	180,230	29	-	28,140	-	-	548,750
Due from other governments	-	-	2,115,511	-	-	651,775	328,543	-	-	358,942	-	3,635,101
Prepaid items	-	-	-	-	-	-	-	-	2,223	-	-	2,223
Total assets	\$ 2,601,290	16,654	2,128,501	2,163,781	1,071,995	5,154,234	542,511	2,994,389	554,435	225,065	439,883	1,453,535
Liabilities:												
Accounts payable	\$ 226,609	1,585	447,444	44,394	33,556	620,748	541,498	35,391	65,674	21,902	283,303	-
Due to other governments	-	-	-	-	-	-	-	17,928	-	-	-	2,322,104
Due to other funds	-	-	1,712,069	-	-	-	-	-	-	-	-	17,928
Due to component units	-	-	-	-	-	-	-	-	-	-	-	1,712,069
Deferred revenues	-	-	-	-	240,736	-	598,424	-	-	-	-	598,424
Total liabilities	\$ 226,609	1,585	2,159,513	285,130	33,556	1,219,172	541,498	53,319	65,674	21,902	283,303	-
Fund balances:												
Nonspendable fund balances	-	-	-	-	-	-	-	-	2,223	-	-	-
Restricted fund balances	2,374,681	15,069	-	1,878,651	1,038,439	3,935,062	-	-	2,941,070	-	156,580	1,000,000
Committed fund balances	-	-	-	-	-	-	-	-	486,538	203,163	-	453,535
Assigned fund balances	-	-	(31,012)	-	-	-	-	-	-	-	-	689,701
Unassigned fund balances	-	-	-	(31,012)	-	-	1,013	-	-	-	-	(29,999)
Total fund balances	2,374,681	15,069	(31,012)	1,878,651	1,038,439	3,935,062	1,013	2,941,070	486,761	203,163	156,580	1,453,535
Total liabilities and fund balances	\$ 2,601,290	16,654	2,128,501	2,163,781	1,071,995	5,154,234	542,511	2,994,389	554,435	225,065	439,883	1,453,535
Total liabilities and fund balances												19,346,273

## CITY OF PORTSMOUTH, VIRGINIA

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Nonmajor Governmental Funds

Year ended June 30, 2011

Special Revenue Funds													
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Stimulus	Comprehensive Services	Donations	Willett Hall	Recreation	Community Development	Permanent Fund - Cemetery	Total
Revenues:													
Intergovernmental	\$ 9,376,000	-	17,014,338	-	3,116,536	3,988,464	3,797,394	28,055	-	185,648	554,318	-	38,713,091
Charges for services	538,388	29,165	-	5,617,787	-	-	-	-	1,473	256	124	45,600	6,970,096
Investment income	1,160	9	-	2,343	-	32,597	-	-	85,123	-	147,151	-	44,772
Use of property	-	-	-	-	-	-	-	-	589	-	-	-	232,274
Miscellaneous	35,857	-	-	-	6,264	22,962	-	686,311	-	-	-	-	752,103
Total revenues	9,951,405	29,174	17,014,338	5,620,130	3,122,800	4,044,023	3,797,394	715,959	271,616	554,442	1,539,455	52,410	46,713,146
Expenditures:													
Current:													
General government	-	-	-	-	22,498	47,375	-	54,650	-	-	-	-	171,603
Judicial	-	26,914	-	-	1,108,105	-	-	148,032	-	-	-	-	1,233,051
Public safety	-	-	-	-	841,338	33,882	-	167,259	-	-	-	-	1,042,479
Public works	-	-	-	1,812,442	-	76,063	-	-	-	-	-	-	1,888,505
Health and welfare	9,409,842	-	21,535,531	-	521,938	-	5,174,986	2,715	-	-	-	-	36,645,012
Parks, recreational, and cultural	-	-	-	-	444,520	-	-	295,802	229,041	532,498	-	-	1,501,861
Community development	-	-	-	17,044	-	742,957	-	-	-	18,127	1,732,271	-	2,475,228
Capital outlay	-	-	-	-	-	11,599,029	-	-	-	-	-	-	11,634,200
Total expenditures	9,409,842	26,914	21,532,575	1,812,442	2,938,399	12,499,306	5,174,986	668,58	229,041	550,625	1,732,271	47,080	56,641,939
Revenues over (under) expenditures	541,563	2,260	(45,538,237)	3,807,688	184,401	(8,455,283)	(1,377,592)	47,501	42,575	3,817	(192,816)	5,330	(9,928,793)
Other financing sources (uses):													
Transfers from other funds	646,645	-	4,467,569	16,671	79,534	-	1,377,592	(71,180)	-	-	-	-	6,588,011
Transfers to other funds	(355,350)	-	-	(4,211,413)	-	-	-	-	-	-	-	-	(4,637,943)
Total other financing sources (uses)	291,295	-	4,467,569	(4,194,742)	79,534	-	1,377,592	(71,180)	-	-	-	-	1,950,068
Net change in fund balances	832,858	2,260	(70,668)	(387,054)	263,935	(8,455,283)	-	(23,679)	42,575	3,817	(192,816)	5,330	(7,978,725)
Fund balances, beginning of year	1,541,823	12,809	39,636	2,265,705	774,504	12,390,345	1,013	2,964,749	446,186	199,346	349,396	1,448,205	22,433,737
Fund balances, end of year	\$ 2,374,681	15,069	(31,012)	1,878,651	1,038,439	3,935,062	1,013	2,941,070	488,761	203,163	1,56,580	1,453,535	14,455,012

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual**

**Special Revenue Funds**

**Year ended June 30, 2011**

	<b>Behavioral Health Services</b>			<b>Public Law Library</b>		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,362,423	9,376,000	(986,423)	33,757	29,165	(4,592)
Charges for services	670,000	538,388	(131,612)	-	9	9
Investment income	25,000	1,160	(23,840)	-	-	-
Miscellaneous	381,000	35,857	(345,143)	-	-	-
Total revenues	11,438,423	9,951,405	(1,487,018)	33,757	29,174	(4,583)
Expenditures:						
Current:						
Judicial	11,729,718	9,409,842	2,319,876	33,757	26,914	6,843
Health and welfare	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	11,729,718	9,409,842	2,319,876	33,757	26,914	6,843
Revenues over (under) expenditures	(291,295)	541,563	832,858	-	2,260	2,260
Other financing sources (uses) -						
Transfers from other funds	646,645	646,645	-	-	-	-
Transfers to other funds	(355,350)	(355,350)	-	-	-	-
Fund balance	-	-	-	-	-	-
Total other financing sources (uses)	291,295	291,295	-	-	-	-
Revenues and other financing sources over/ (under) expenditures and other financing uses	\$ -	832,858	\$ -	2,260	2,260	2,260
Fund balances at beginning of year	1,541,823	1,541,823	-	12,809	12,809	12,809
Cancellation of unexpended prior year encumbrances	-	-	-	-	-	-
Increase (decrease) in reserve for encumbrances	-	-	-	-	-	-
Fund balances at end of year	\$ 2,374,681	2,374,681	\$ 15,069	15,069	15,069	15,069

(continued)

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual**

**Special Revenue Funds**

**Year ended June 30, 2011**

	<b>Social Services</b>		<b>Stormwater Management</b>		<b>Variance favorable (unfavorable)</b>	
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	
<b>Revenues:</b>						
Intergovernmental	\$ 23,285,284	17,014,338	(6,270,946)	-	-	
Charges for services	-	-	-	5,720,064	5,617,787	(102,277)
Investment income	-	-	-	-	2,343	2,343
Miscellaneous	-	-	-	-	-	-
<b>Total revenues</b>	<b>23,285,284</b>	<b>17,014,338</b>	<b>(6,270,946)</b>	<b>5,720,064</b>	<b>5,620,130</b>	<b>(99,934)</b>
<b>Expenditures:</b>						
Current:						
Public works	-	-	-	1,824,213	1,812,442	11,771
Health and welfare	29,366,384	21,535,531	7,830,853	-	-	-
Capital outlay	17,083	17,044	39	-	-	-
<b>Total expenditures</b>	<b>29,383,467</b>	<b>21,552,575</b>	<b>7,830,892</b>	<b>1,824,213</b>	<b>1,812,442</b>	<b>11,771</b>
Revenues over (under) expenditures	(6,098,183)	(4,538,237)	1,559,946	3,895,851	3,807,688	(88,163)
Other financing sources (uses):						
Transfers from other funds	6,098,183	4,467,569	(1,630,614)	16,671	16,671	-
Transfers to other funds	-	-	-	(4,211,412)	(4,211,412)	(1)
Fund balance	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>6,098,183</b>	<b>4,467,569</b>	<b>(1,630,614)</b>	<b>(4,194,741)</b>	<b>(4,194,742)</b>	<b>(1)</b>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ _____ -	(70,668)	(70,668)	\$ _____ -	(387,054)	(387,054)
Fund balances at beginning of year	39,656	39,656	-	2,265,705	2,265,705	
Cancellation of unexpended prior year encumbrances	-	-	-	-	-	-
Decrease in reserve for encumbrances	-	-	-	-	-	-
<b>Fund balances at end of year</b>	<b>\$ (31,012)</b>	<b>(31,012)</b>		<b>\$ 1,878,651</b>	<b>1,878,651</b>	

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual**

**Special Revenue Funds**

**Year ended June 30, 2011**

	Comprehensive Services			Willett Hall		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 5,985,594	3,797,394	(2,188,200)			-
Charges for services	-	-	-	280,000	185,648	(94,352)
Investment income	-	-	-		256	256
Use of property	-	-	-	105,000	85,123	(19,877)
Miscellaneous	-	-	-	1,625	589	(1,036)
Total revenues	5,985,594	3,797,394	(2,188,200)	386,625	271,616	(115,009)
Expenditures -						
Current:						
Health and welfare	9,138,607	5,174,986	3,963,621		290,157	229,041
Parks, recreational and cultural	-	-	-			61,116
Total expenditures	9,138,607	5,174,986	3,963,621	290,157	229,041	61,116
Revenues over (under) expenditures	(3,153,013)	(1,377,592)	1,775,421	96,468	42,575	(53,893)
Other financing sources -						
Contribution to net assets				(96,468)	-	96,468
Transfers from other funds				-	-	-
Fund balance					-	-
Total other financing sources	3,153,013	1,377,592	(1,775,421)	(96,468)	-	96,468
Revenues and other financing sources over (under) expenditures	\$ -	-	-	\$ -	42,575	42,575
Fund balances at beginning of year		1,013	1,013		446,186	446,186
Cancellation of unexpended prior year encumbrances		-	-		-	-
Increase (decrease) in reserve for encumbrances		-	-		-	-
Fund balances at end of year	\$ 1,013	1,013		\$ 488,761	488,761	

**CITY OF PORTSMOUTH, VIRGINIA**

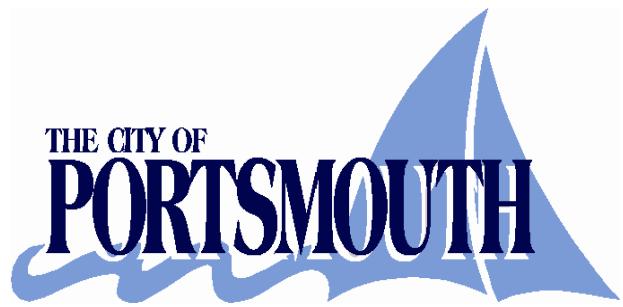
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**

**Budget and Actual**

**Special Revenue Funds**

**Year ended June 30, 2011**

		<b>Recreation</b>		<b>Variance favorable (unfavorable)</b>
		<b>Budget</b>	<b>Actual</b>	
<b>Revenues:</b>				
Charges for services	\$ 600,000	554,318	(45,682)	
Investment income	-	124	124	
<b>Total revenues</b>	<b>600,000</b>	<b>554,442</b>	<b>(45,558)</b>	
<b>Expenditures -</b>				
<b>Current -</b>				
Community Development	580,000	532,498	47,502	
Parks, recreational and cultural	20,000	18,127	1,873	
Capital outlay				
<b>Total expenditures</b>	<b>600,000</b>	<b>550,625</b>	<b>49,375</b>	
<b>Revenues over (under) expenditures</b>	<b>-</b>	<b>3,817</b>	<b>3,817</b>	
<b>Other financing use -</b>				
Transfers to other funds	-	-	-	-
<b>Revenues over (under) expenditures and other financing use</b>	<b>\$ -</b>	<b>3,817</b>	<b>3,817</b>	
<b>Fund balances at beginning of year</b>				
<b>Increase/ (decrease) in reserve for encumbrances</b>				
<b>Fund balances at end of year</b>	<b>\$ 203,163</b>	<b>203,163</b>		



## **Nonmajor Proprietary Funds**

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## CITY OF PORTSMOUTH, VIRGINIA

## Schedule K-1

## Combining Statement of Net Assets

## Nonmajor Proprietary Funds

June 30, 2011

		Port Facility and Economic Development	Golf	Waste Management	Total
<b>Assets:</b>					
Current assets:					
Cash and temporary investments	\$ -	234,081	7,969,625	8,203,706	
Restricted cash and temporary investments	-	-	814,506	814,506	
Accounts receivable (net of allowance for uncollectibles \$646,937)	-	1,427	2,707,195	2,708,622	
<b>Total current assets</b>	<b>-</b>	<b>235,508</b>	<b>11,491,326</b>	<b>11,726,834</b>	
Noncurrent assets:					
Capital assets:					
Land	1,830,251	9,605,289	2,909,275	14,344,815	
Buildings	3,938,058	2,127,591	-	6,065,649	
Improvements other than buildings	2,043,849	-	-	2,043,849	
Machinery, furniture and equipment	-	1,029,506	7,192,580	8,222,086	
<b>Total capital assets</b>	<b>7,812,158</b>	<b>12,762,386</b>	<b>10,101,855</b>	<b>30,676,399</b>	
Less accumulated depreciation	(5,024,908)	(1,930,984)	(4,622,777)	(11,578,669)	
<b>Total capital assets, net</b>	<b>2,787,250</b>	<b>10,831,402</b>	<b>5,479,078</b>	<b>19,097,730</b>	
Other assets	-	91,360	-	91,360	
<b>Total noncurrent assets</b>	<b>2,787,250</b>	<b>10,922,762</b>	<b>5,479,078</b>	<b>19,189,090</b>	
<b>Total assets</b>	<b>\$ 2,787,250</b>	<b>11,158,270</b>	<b>16,970,404</b>	<b>30,915,924</b>	
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	\$ -	49,293	507,983	557,276	
Accrued interest payable	-	62,530	-	62,530	
Deposits	10,000	-	-	10,000	
Due to other funds	259,824	-	-	259,824	
Compensated absences	-	50,822	173,699	224,521	
Obligations under capital leases	-	-	681,478	681,478	
General obligation bonds	-	53,403	-	53,403	
<b>Total current liabilities</b>	<b>269,824</b>	<b>216,048</b>	<b>1,363,160</b>	<b>1,849,032</b>	
Noncurrent liabilities:					
Other post employment benefit obligations	-	363,030	1,442,262	1,805,292	
Compensated absences	-	36,098	37,913	74,011	
Obligations under capital leases	-	-	1,892,542	1,892,542	
Landfill closure and postclosure liability	-	-	6,589,612	6,589,612	
General obligation bonds	-	6,409,186	-	6,409,186	
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>6,808,314</b>	<b>9,962,329</b>	<b>16,770,643</b>	
<b>Total liabilities</b>	<b>269,824</b>	<b>7,024,362</b>	<b>11,325,489</b>	<b>18,619,675</b>	
<b>Net assets:</b>					
Invested in capital assets, net of related debt	2,787,250	4,368,813	2,905,058	10,061,121	
Unrestricted (deficit)	(269,824)	(234,905)	2,739,857	2,235,128	
<b>Total net assets</b>	<b>2,517,426</b>	<b>4,133,908</b>	<b>5,644,915</b>	<b>12,296,249</b>	
<b>Total liabilities and net assets</b>	<b>\$ 2,787,250</b>	<b>11,158,270</b>	<b>16,970,404</b>	<b>30,915,924</b>	

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule K-2**

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**

**Nonmajor Proprietary Funds**

**Year ended June 30, 2011**

		Port Facility and Economic Development	Golf	Waste Management	Total
Operating revenues:					
Intergovernmental	\$	-	-	680,000	680,000
Charges for services		-	1,215,030	14,027,983	15,243,013
Use of property		-	90,000	-	90,000
Other		-	3,427	5,940	9,367
Total operating revenues		-	1,308,457	14,713,923	16,022,380
Operating expenses:					
Personnel services		-	908,060	3,595,005	4,503,065
Contractual services		-	551,156	6,097,281	6,648,437
Supplies and materials		-	214,452	145,794	360,246
Utilities		-	107,913	4,601	112,514
Internal charges		-	28,958	1,628,218	1,657,176
Rent		-	77,458	-	77,458
Depreciation and amortization		46,118	142,064	822,942	1,011,124
Other		-	1,521	1,253,121	1,254,642
Total operating expenses		46,118	2,031,582	13,546,962	15,624,662
Operating income (loss)		(46,118)	(723,125)	1,166,961	397,718
Nonoperating revenues (expenses):					
Investment income		-	-	3,244	3,244
Gain (loss) on disposal of capital assets		-	(21,025)	50,176	29,151
Interest expense and fiscal charges		-	(290,463)	(29,460)	(319,923)
Net nonoperating revenues (expenses)		-	(311,488)	23,960	(287,528)
Net income (loss) before transfers		(46,118)	(1,034,613)	1,190,921	110,190
Transfers from other funds		-	853,042	59,688	912,730
Change in net assets		(46,118)	(181,571)	1,250,609	1,022,920
Net assets, beginning of year		2,563,544	4,315,479	4,394,306	11,273,329
Net assets, end of year	\$	2,517,426	4,133,908	5,644,915	12,296,249

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule K-3**
**Combining Statement of Cash Flows**
**Nonmajor Proprietary Funds**
**Year ended June 30, 2011**


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		Port Facility and Economic Development	Golf	Waste Management	Total
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ -	1,308,249	14,923,628	16,231,877	
Payments to suppliers	-	(986,050)	(8,385,192)	(9,371,242)	
Payments to employees	-	(833,964)	(3,274,488)	(4,108,452)	
Net cash provided by (used for) operating activities	-	(511,765)	3,263,948	2,752,183	
<b>Cash flows from noncapital financing activity -</b>					
Transfers in / (out)	-	853,042	59,688	912,730	
Net cash provided by (used in) noncapital financing activities	-	853,042	59,688	912,730	
<b>Cash flows from capital and related financing activities:</b>					
Proceeds from sale of capital assets	-	-	50,176	50,176	
Issuance and refunding of long-term debt, net	-	(6,247)	814,506	808,259	
Principal paid on long-term debt	-	(65,000)	(448,565)	(513,565)	
Interest paid	-	(316,288)	(29,460)	(345,748)	
Net cash provided by (used in) capital and related financing activities	-	(387,535)	386,657	(878)	
<b>Cash flows from investing activities -</b>					
Interest received	-	-	3,244	3,244	
Net cash provided by investing activities	-	-	3,244	3,244	
Net increase (decrease) in cash and temporary investments	-	(46,258)	3,713,537	3,667,279	
Cash and temporary investments, beginning of year	-	280,339	5,070,594	5,350,933	
Cash and temporary investments, end of year	\$ -	234,081	8,784,131	9,018,212	
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities</b>					
Operating income (loss)	\$ (46,118)	(723,125)	1,166,961	397,718	
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation and amortization	46,118	142,064	822,942	1,011,124	
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:					
Accounts receivable	-	(208)	114,030	113,822	
Accounts payable	-	(4,592)	(181,151)	(185,743)	
Compensated absences	-	(7,675)	(6,567)	(14,242)	
Other post employment benefit obligation	-	81,771	327,083	408,854	
Landfill closure and postclosure liability	-	-	1,020,650	1,020,650	
Net cash provided by (used for) operating activities	\$ -	(511,765)	3,263,948	2,752,183	

## **Internal Service Funds**

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**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule L-1**
**Combining Statement of Net Assets**
**Internal Service Funds**
**June 30, 2011**

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
<b>Assets:</b>						
Current assets:						
Cash and temporary investments	\$ 4,879,819	1,471,177	5,987,410	5,500,000	16,228,436	34,066,842
Accounts receivable	2,886,034	33,219	22,900	-	-	2,942,153
Inventory of supplies	567,846	-	-	-	-	567,846
Total current assets	8,333,699	1,504,396	6,010,310	5,500,000	16,228,436	37,576,841
Capital assets:						
Land	15,048	-	-	-	-	15,048
Buildings	693,083	-	-	-	-	693,083
Intangible Assets	-	888,688	-	-	-	888,688
Machinery, furniture and equipment	18,634,317	4,944,379	-	-	-	23,578,696
Total capital assets	19,342,448	5,833,067	-	-	-	25,175,515
Less accumulated depreciation / amortization	(12,235,173)	(4,164,574)	-	-	-	(16,399,747)
Total capital assets, net	7,107,275	1,668,493	-	-	-	8,775,768
Total assets	\$ 15,440,974	3,172,889	6,010,310	5,500,000	16,228,436	46,352,609
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	\$ 937,684	29,654	148,670	-	113,598	1,229,606
Compensated absences	118,687	206,788	-	-	20,942	346,417
Obligations under capital leases	1,709,319	-	-	-	-	1,709,319
Claims payable	-	-	1,303,690	-	2,665,726	3,969,416
Total current liabilities	2,765,690	236,442	1,452,360	-	2,800,266	7,254,758
Noncurrent liabilities:						
Claims payable	-	-	-	-	9,983,336	9,983,336
Other post employment benefit obligation	776,301	653,175	-	-	84,046	1,513,522
Obligations under capital leases	6,730,446	-	-	-	-	6,730,446
Total noncurrent liabilities	7,506,747	653,175	-	-	10,067,382	18,227,304
Total liabilities	10,272,437	889,617	1,452,360	-	12,867,648	25,482,062
<b>Net assets:</b>						
Invested in capital assets, net of related debt	(1,332,490)	1,668,493	-	-	-	336,003
Unrestricted (deficit)	6,501,027	614,779	4,557,950	5,500,000	3,360,788	20,534,544
Total net assets	5,168,537	2,283,272	4,557,950	5,500,000	3,360,788	20,870,547
Total liabilities and net assets	\$ 15,440,974	3,172,889	6,010,310	5,500,000	16,228,436	46,352,609

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule L-2**
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**
**Internal Service Funds**
**Year ended June 30, 2011**

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Operating revenues:						
Charges for services	\$ 8,312,313	4,745,604	17,699,202	-	6,102,797	36,859,916
Other	8,394	28,045	257,391	-	502,800	796,630
<b>Total operating revenues</b>	<b>8,320,707</b>	<b>4,773,649</b>	<b>17,956,593</b>	<b>-</b>	<b>6,605,597</b>	<b>37,656,546</b>
Operating expenses:						
Personnel services	1,986,481	2,863,237	-	-	295,905	5,145,623
Contractual services	449,092	997,666	1,274,069	-	383,485	3,104,312
Supplies and materials	3,538,309	278,869	-	-	6,930	3,824,108
Utilities	91,707	91,138	-	-	2,781	185,626
Claims, settlements, and refunds	-	-	16,477,594	-	1,424,015	17,901,609
Insurance premiums	-	-	-	-	1,022,383	1,022,383
Depreciation and amortization	1,527,541	642,871	-	-	-	2,170,412
Other	489,773	294,005	23,852	-	52,143	859,773
<b>Total operating expenses</b>	<b>8,082,903</b>	<b>5,167,786</b>	<b>17,775,515</b>	<b>-</b>	<b>3,187,642</b>	<b>34,213,846</b>
<b>Operating income</b>	<b>237,804</b>	<b>(394,137)</b>	<b>181,078</b>	<b>-</b>	<b>3,417,955</b>	<b>3,442,700</b>
Nonoperating revenues (expenses):						
Investment income	486	663	3,323	-	7,738	12,210
Gain (loss) on disposal of capital assets	60,120	-	-	-	-	60,120
Interest expense and fiscal charges	(52,332)	(3,282)	-	-	-	(55,614)
<b>Net nonoperating revenues (expenses)</b>	<b>8,274</b>	<b>(2,619)</b>	<b>3,323</b>	<b>-</b>	<b>7,738</b>	<b>16,716</b>
Net income before transfers	246,078	(396,756)	184,401	-	3,425,693	3,459,416
Transfers from other funds	420,395	49,077	-	2,500,000	4,284	2,973,756
Transfers to other funds	-	-	(2,500,000)	-	-	(2,500,000)
Change in net assets	666,473	(347,679)	(2,315,599)	2,500,000	3,429,977	3,933,172
Net assets (deficit), beginning of year (note 17)	4,502,064	2,630,951	6,873,549	3,000,000	(69,189)	16,937,375
<b>Net assets (deficit), end of year</b>	<b>\$ 5,168,537</b>	<b>2,283,272</b>	<b>4,557,950</b>	<b>5,500,000</b>	<b>3,360,788</b>	<b>20,870,547</b>

**CITY OF PORTSMOUTH, VIRGINIA**
**Schedule L-3**
**Combining Statement of Cash Flows**
**Internal Service Funds**
**Year ended June 30, 2011**

	<b>City Garage</b>	<b>Information Technology</b>	<b>Health Insurance</b>	<b>OPEB</b>	<b>Risk Management</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>						
Receipts from customers	\$ 5,497,806	4,774,286	18,232,927	-	6,605,597	35,110,616
Payments to suppliers	(3,826,778)	(1,688,454)	(17,800,780)	-	(4,580,813)	(27,896,825)
Payments to employees	(1,815,069)	(2,749,055)	-	-	(279,597)	(4,843,721)
Net cash provided by (used in) operating activities	(144,041)	336,777	432,147	-	1,745,187	2,370,070
<b>Cash flows from noncapital financing activity -</b>						
Transfers (out) / in	420,395	-	(2,500,000)	2,500,000	4,284	424,679
Net cash provided by (used in) noncapital financing activities	420,395	-	(2,500,000)	2,500,000	4,284	424,679
<b>Cash flows from capital and related financing activities:</b>						
Acquisition and construction of capital assets	(2,379,646)	(200,622)	-	-	-	(2,580,268)
Proceeds from sale of capital assets	60,120	-	-	-	-	60,120
Transfers In	-	49,077	-	-	-	49,077
Principal paid on long-term debt	4,704,084	(174,221)	-	-	-	4,529,863
Interest paid	(52,332)	(3,282)	-	-	-	(55,614)
Net cash provided by (used in) capital and related financing activities	2,332,226	(329,048)	-	-	-	2,003,178
<b>Cash flows from investing activities -</b>						
Interest received	486	663	3,323	-	7,738	12,210
Net cash provided by investing activities	486	663	3,323	-	7,738	12,210
Net increase (decrease) in cash and temporary investments	2,609,066	8,392	(2,064,530)	2,500,000	1,757,209	4,810,137
Cash and temporary investments, beginning of year	2,270,753	1,462,785	8,051,940	3,000,000	14,471,227	29,256,705
Cash and temporary investments, end of year	\$ 4,879,819	1,471,177	5,987,410	5,500,000	16,228,436	34,066,842
<b>Adjustments to reconcile operating income to net cash provided by (used in) operating activities</b>						
Operating income	\$ 237,804	(394,137)	181,078	-	3,417,955	3,442,700
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	1,527,541	642,871	-	-	-	2,170,412
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:						
Accounts receivable	(2,822,901)	637	127,664	-	-	(2,694,600)
Inventory of supplies	5,029	-	-	-	-	5,029
Accounts payable	737,074	(26,776)	148,670	-	(296,216)	562,752
Compensated absences	(1,749)	(10,879)	-	-	-	(10,750)
Other post employment benefit obligation	173,161	125,061	-	-	14,430	312,652
Claims payable	-	-	(25,265)	-	(1,392,860)	(1,418,125)
Net cash provided by operating activities	\$ (144,041)	336,777	432,147	-	1,745,187	2,370,070

## **Fiduciary Funds**

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**CITY OF PORTSMOUTH, VIRGINIA**  
**Combining Statement of Fiduciary Net Assets**  
**Fiduciary Funds - Pension Trust Funds**  
**June 30, 2011**

**Schedule M-1**

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
<b>Assets:</b>			
Cash	\$ 642,091	1,426,394	2,068,485
Investments:			
Common stock	14,694,486	49,514,502	64,208,988
Corporate bonds	6,913,521	23,295,782	30,209,303
<b>Total assets</b>	<b>\$ 22,250,098</b>	<b>74,236,678</b>	<b>96,486,776</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 22,250,098</b>	<b>74,236,678</b>	<b>96,486,776</b>

**CITY OF PORTSMOUTH, VIRGINIA****Schedule M-2****Combining Statement of Changes in Fiduciary Net Assets****Fiduciary Funds - Pension Trust Funds****Year ended June 30, 2011**

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
<b>Additions:</b>			
Contributions	\$ 3,140,834	12,814,885	15,955,719
Investment income -			
Net increase in the fair value of investments	4,211,459	12,767,592	16,979,051
Less investment expense	(85,732)	(210,767)	(296,499)
Net investment income	4,125,727	12,556,825	16,682,552
Total additions	7,266,561	25,371,710	32,638,271
<b>Deductions - benefits and refunds</b>			
Change in net assets	(638,185)	8,408,200	7,770,015
Net plan assets held in trust for pension benefits, beginning of year	22,888,283	65,828,478	88,716,761
Net plan assets held in trust for pension benefits, end of year	\$ 22,250,098	74,236,678	96,486,776

**CITY OF PORTSMOUTH, VIRGINIA****Schedule M-3****Statement of Changes in Assets and Liabilities****Fiduciary Funds - Agency Fund****Year ended June 30, 2011**

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b>Assets:</b>				
Cash and temporary investments	\$ 81,095	205,808	195,977	90,926
<b>Liabilities:</b>				
Cash held for others	\$ 81,095	205,804	195,973	90,926

## **STATISTICAL SECTION**

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This section of the City of Portsmouth's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

### **Financial Trends**

These contain information to help the reader understand how the City's financial performance and well-being have changed over time.

### **Revenue Capacity**

These help the reader assess the factors affecting the City's ability to generate its own-source revenues.

### **Debt Capacity**

These present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

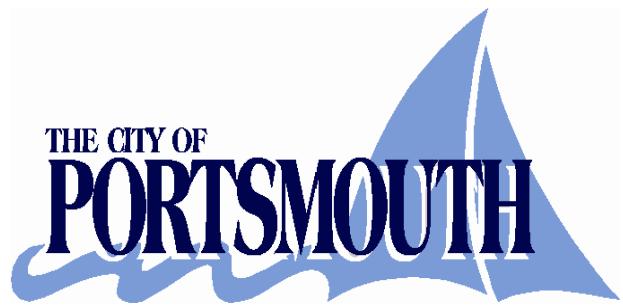
### **Demographic and Economic information**

These offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

### **Operating information**

These contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

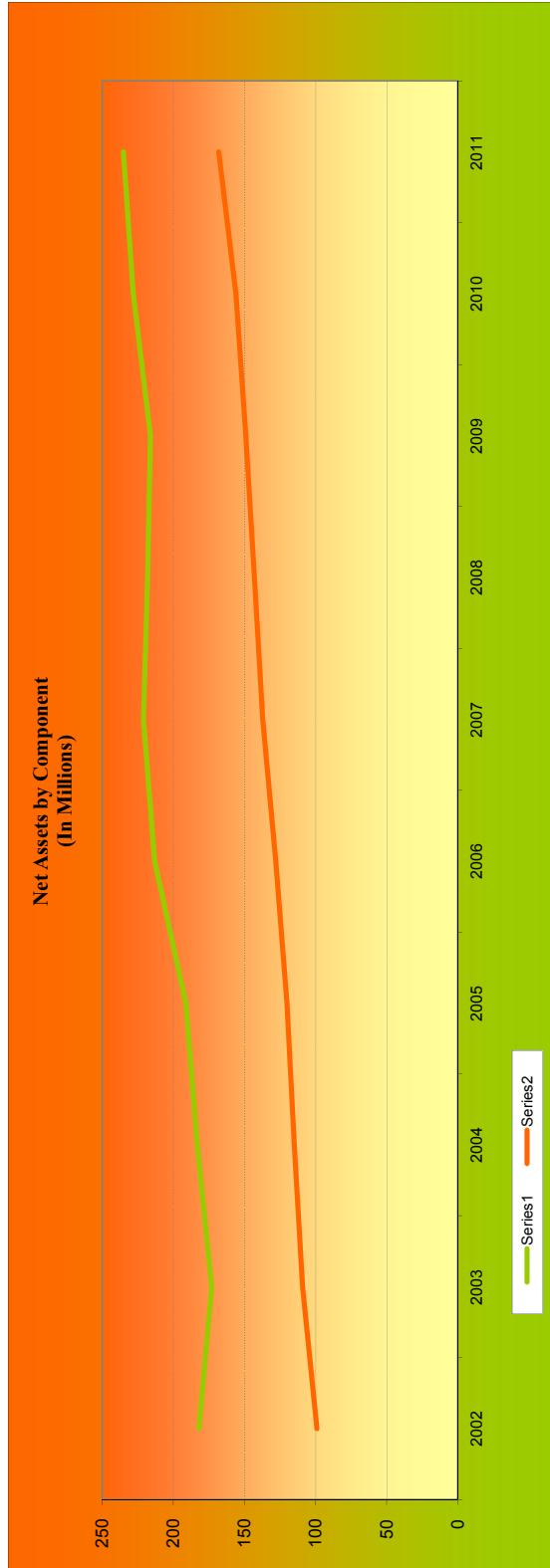
**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year. The City implemented Governmental Accounting Standards Board Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that year.



**CITY OF PORTSMOUTH, VIRGINIA**  
**Net Assets by Component**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

A-1

	2002	2003	2004	2005	Fiscal year	2006	2007	2008	2009	2010	2011
<b>Governmental activities:</b>											
Invested in capital assets, net of related debt	\$ 186,348,840	179,158,480	174,607,640	175,288,130	167,581,045	178,183,374	187,359,078	176,415,840	179,076,283	186,101,165	
Restricted (Restricted, Nonspend, Committed, Assigned)	4,729,274	6,325,007	9,560,635	6,341,840	14,958,699	10,510,194	5,588,329	12,438,087	16,014,789	15,421,510	
Unrestricted (Unassigned)	(8,966,313)	(12,181,708)	(975,637)	10,112,505	30,296,025	32,295,766	24,710,887	27,319,933	32,818,638	33,924,914	
Total governmental activities net assets	182,111,801	173,301,779	183,192,638	191,742,475	212,835,769	220,989,334	217,658,394	216,173,860	227,909,710	235,447,589	
<b>Business-type activities:</b>											
Invested in capital assets, net of related debt	83,536,450	94,189,421	95,356,124	105,115,529	104,805,799	108,111,466	112,115,139	114,270,026	122,952,622	128,135,654	
Restricted (Restricted, Nonspend, Committed, Assigned)	7,041,762	5,097,480	7,943,529	7	-	2,190,726	3,389,920	4,117,658	12,131	-	
Unrestricted (Unassigned)	8,347,171	9,562,355	12,176,618	15,026,250	23,530,011	26,316,690	27,320,964	30,213,505	33,143,573	39,924,125	
Total business-type activities net assets	98,925,383	108,849,256	115,476,271	120,141,779	128,335,810	136,618,882	142,826,623	148,601,189	156,108,326	168,069,779	
<b>Primary government:</b>											
Invested in capital assets, net of related debt	269,885,290	273,347,901	269,963,764	280,403,659	272,386,844	286,294,840	299,474,217	290,685,866	302,028,905	314,236,819	
Restricted (Restricted, Nonspend, Committed, Assigned)	11,771,036	11,422,487	17,504,164	6,341,840	14,958,699	12,700,920	8,978,349	16,555,745	16,026,920	15,421,510	
Unrestricted (Unassigned)	(619,142)	(2,619,353)	11,200,981	25,138,755	53,826,036	58,612,456	52,031,851	57,533,438	65,962,211	73,859,039	
Total primary government net assets	\$ 281,037,184	282,151,035	298,668,909	311,884,254	341,171,579	357,608,216	360,484,417	364,775,049	384,018,036	403,517,368	



CITY OF PORTSMOUTH, VIRGINIA  
 Changes in Net Assets  
 Last Ten Fiscal Years  
*(accrual basis of accounting)*

A-2

	Fiscal year					
	2002	2003	2004	2005	2006	2007
	2008	2009	2010	2011		
<b>Expenses:</b>						
Governmental activities:						
General government	\$ 13,707,252	11,720,023	11,692,728	13,328,360	20,456,662	30,899,380
Nondepartmental	5,591,277	8,366,152	4,762,967	5,898,408	~	6,135,893
Judicial	18,374,317	15,773,813	17,691,137	16,427,965	17,340,346	20,995,575
Public safety	39,012,705	42,400,606	40,994,089	46,918,455	49,239,795	58,580,330
Public works	30,753,346	27,141,064	27,619,634	27,842,278	29,444,928	31,141,010
Health and welfare	33,280,478	31,324,968	29,243,499	32,467,973	36,185,435	39,099,957
Parks, recreational, and cultural	7,296,226	10,253,492	11,772,825	11,774,542	11,154,672	12,440,345
Community development	9,131,049	9,199,557	7,787,772	10,543,456	10,226,594	12,716,520
Education	32,735,751	29,338,070	29,686,110	32,897,229	38,499,873	44,642,509
Interest on long-term debt	11,314,569	10,736,872	8,763,884	9,464,475	10,933,309	11,135,778
Total governmental activities expenses	201,258,970	196,254,617	190,014,645	207,555,141	223,482,014	251,669,905
Business-type activities:						
Public Utility	14,350,847	14,220,589	14,943,547	16,370,484	16,642,684	18,073,378
Golf	2,096,630	2,078,915	2,287,630	2,129,150	1,897,023	2,322,069
Port Facility and Economic Development	235,695	206,270	237,204	200,977	87,904	86,922
Parking Authority	-	-	-	-	1,599,666	1,615,350
Total business-type activities expenses	16,593,172	16,203,881	16,106,743	8,467,640	8,762,865	9,567,874
Total primary government expenses	217,852,142	220,964,272	223,589,769	234,723,392	252,472,156	283,355,498
Program Revenues:						
Governmental activities:						
Charges for services						
General government	2,102,369	1,914,330	2,518,350	3,101,531	4,578,378	4,118,356
Judicial	69,289	56,762	874,555	623,452	723,516	663,258
Public safety	1,793,520	1,384,989	1,355,608	1,421,276	1,927,252	2,108,401
Public works	16,547,400	9,462,417	11,057,015	4,214,193	4,637,651	5,270,193
Health and welfare	21,159,958	2,412,970	2,764,962	2,465,517	3,283,363	2,928,297
Parks, recreation, and cultural	314,176	804,581	1,560,925	1,433,282	1,705,543	1,157,796
Community development	205,715	506,917	859,665	2,765,041	1,773,415	986,880
Operating grants and contributions	64,068,194	62,284,664	66,646,513	68,229,728	73,251,426	74,604,092
Capital grants and contributions	3,364,918	3,857,871	1,817,612	1,416,967	2,788,448	79,186,102
Total governmental activities program revenues	91,121,539	83,196,366	89,455,205	85,710,987	94,798,509	95,610,961
Business-type activities:						
Charges for services:						
Public Utility	20,658,121	20,872,297	23,337,218	29,771,198	31,023,177	32,433,324
Golf	1,680,535	1,483,492	1,523,235	1,508,307	1,660,710	1,755,064
Port Facility and Economic Development	544,836	-	544,836	-	568,279	580,000
Parking Authority	-	-	-	-	1,010,413	991,755
Waste Management	-	6,384,627	7,342,536	7,290,352	7,440,339	9,375,993

(continued)

CITY OF PORTSMOUTH, VIRGINIA  
 Changes in Net Assets  
 Last Ten Fiscal Years  
*(accrual basis of accounting)*

A-2, C-continued

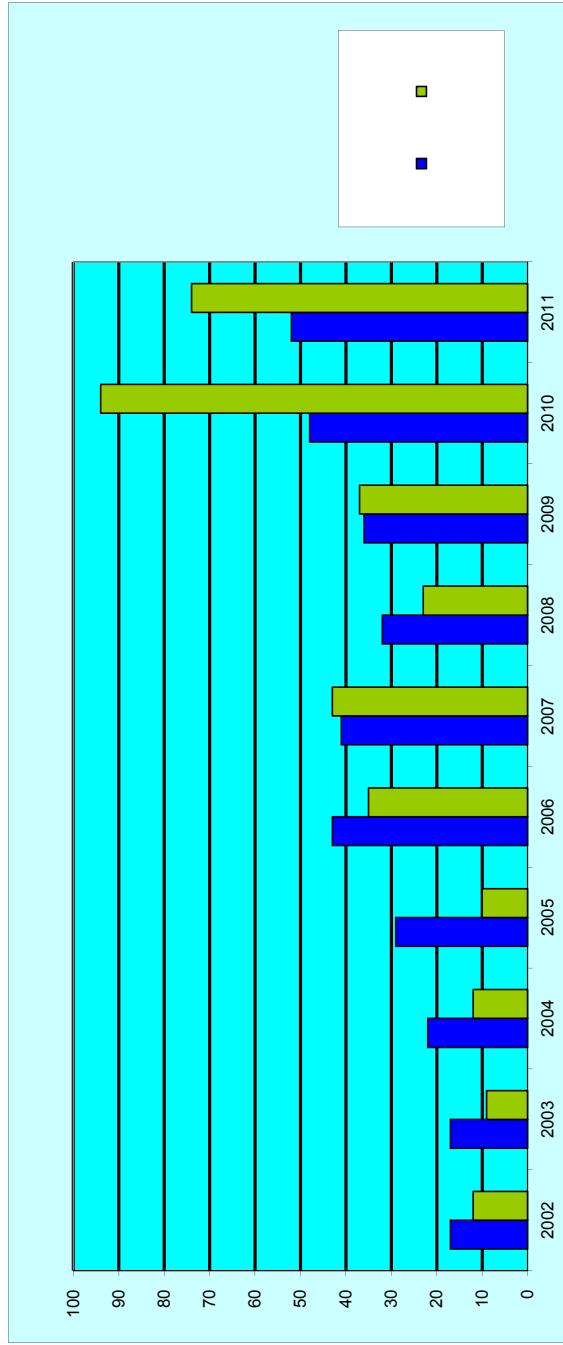
	Fiscal year					
	2002	2003	2004	2005	2006	2007
Business-type activities, continued:						
Operating grants and contributions	\$ 182,625	-\$	6,720,303	1,312,180	685,994	685,994
Capital grants and contributions	-\$ 1,333,457	-\$	-\$	987,911	246,200	50,50
Total business-type activities program revenues	23,066,117	31,118,709	39,468,128	40,426,873	43,376,823	49,766,634
Total primary government program revenues	114,187,656	114,315,075	128,923,333	126,137,860	138,175,332	141,659,291
Net (Expense) Revenue						
Governmental activities	(110,137,431)	(113,058,251)	(100,559,440)	(121,844,154)	(128,683,505)	(156,078,944)
Business-type activities	6,472,945	6,409,054	5,893,004	13,258,622	14,386,681	14,382,737
Total primary government net (expense)/revenue	(103,664,486)	(106,649,197)	(94,666,436)	(108,585,532)	(114,296,824)	(141,696,207)
General Revenues and Other Changes in Net Assets:						
Governmental activities:						
Taxes:						
General property taxes	59,774,970	65,341,144	66,675,560	77,027,006	86,704,528	101,207,980
Other local taxes	20,436,570	22,426,385	24,370,065	25,714,884	27,002,058	27,929,104
Utility taxes	13,868,373	14,572,822	14,523,797	14,627,996	15,032,684	14,794,915
Licenses, permits, and privilege fees	629,774	-\$	-\$	-\$	-\$	7,698,211
Payment from component unit	237,921	-\$	-\$	-\$	-\$	-\$
Investment earnings	524,431	235,171	123,576	891,305	1,532,174	3,198,654
Net gain on disposal of capital assets	-\$	-\$	-\$	-\$	3,574,493	139,440
Miscellaneous	3,688,715	3,595,513	3,531,490	2,848,605	5,125,187	2,621,370
Special Item	-\$	-\$	-\$	-\$	(2,236,629)	2,568,498
Transfers	2,272,389	1,290,579	1,225,811	9,284,195	8,537,144	9,553,108
Total governmental activities	101,433,143	107,461,614	110,450,299	130,393,991	145,271,639	159,442,571
Business-type activities:						
Investment earnings	522,957	226,357	125,694	793,616	1,127,642	2,622,827
Special item - gain on sale of golf course	3,600,000	-\$	-\$	-\$	-\$	-\$
Gain on sale of capital assets	1,279,870	30,169	-\$	426,323	20,006	(147,433)
Miscellaneous	(2,272,389)	1,335,487	1,834,128	371,142	479,866	3,984
Total business-type activities	3,104,438	(1,290,579)	(1,225,811)	(9,284,195)	(8,537,144)	(9,553,108)
Total primary government	104,563,581	107,763,048	111,184,310	122,700,877	138,362,009	153,396,673
Change in Net Assets:						
Governmental activities	(8,704,288)	(5,596,637)	9,890,859	8,549,837	16,588,134	3,365,627
Business-type activities	9,603,383	6,710,488	6,627,015	5,565,508	7,477,051	8,334,839
Total primary government	\$ 899,095	1,113,851	16,517,874	14,115,345	24,065,185	11,700,466

CITY OF PORTSMOUTH, VIRGINIA  
Fund Balances, Governmental Funds  
Last Ten Fiscal Years (modified accrual basis of accounting)

A-3

	2002	2003	2004	2005	Fiscal year	2006	2007	2008	2009	2010	2011
General Fund											
Reserved	\$ 3,468,710	1,978,078	3,319,963	1,997,783	6,300,760	5,069,051	5,707,974	3,246,548	2,934,768	-	-
Unreserved	13,319,176	14,924,689	18,730,024	27,492,525	36,473,047	35,452,633	26,328,953	32,608,666	45,394,978	2,660,735	-
Nonspendable	-	-	-	-	-	-	-	-	-	140,677	-
Restricted	-	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	60,627	-
Assigned	-	-	-	-	-	-	-	-	-	-	-
Total General Fund	\$ 16,787,886	16,902,767	22,049,987	29,490,308	42,773,807	40,521,684	32,036,927	35,855,214	48,329,746	51,529,838	-
All Other Governmental Funds											
Reserved	\$ 5,255,341	4,559,671	4,072,348	6,745,034	13,796,697	12,992,195	12,390,140	9,013,543	17,861,357	-	-
Unreserved, reported in:											
Special revenue funds	2,059,431	3,272,243	5,764,887	6,043,199	6,380,664	5,933,041	5,230,281	6,219,375	19,580,665	-	-
Permanent funds (1)	41,585	100,213	120,002	140,468	183,397	297,604	407,268	394,025	448,205	-	-
Capital projects funds	4,683,728	810,330	2,100,788	(2,550,084)	14,573,363	24,241,983	5,390,537	21,751,465	56,173,437	1,002,223	-
Nonspendable	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	70,648,877	-
Committed	-	-	-	-	-	-	-	-	-	2,177,447	-
Assigned	-	-	-	-	-	-	-	-	-	(29,999)	-
Total all other governmental funds	\$ 12,040,085	8,742,457	12,057,925	10,398,607	34,936,121	43,464,823	23,418,226	37,378,408	94,063,664	73,798,548	-

\* Classification change (GASB 54) FY11 Special Revenue, Permanent, & Capital Projects fund balance is comprised of Restricted, Nonspendable, Committed, and Assigned fund balances



**CITY OF PORTSMOUTH, VIRGINIA**  
**Changes in Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**  
*(modified accrual basis of accounting)*

A-4

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Taxes	\$ 93,735,729	101,887,513	105,968,051	116,523,150	129,336,845	142,304,393	151,595,074	161,152,304	163,986,237	159,191,656
Licenses and permits	629,774	584,412	952,160	991,695	1,162,977	1,341,290	1,153,187	926,923	1,136,981	1,117,152
Fines and forfeitures	229,371	237,563	480,247	409,096	335,211	292,244	172,007	173,529	184,741	572,821
Investment income and use of property	2,162,290	2,799,451	3,104,812	5,754,735	5,331,493	6,058,766	4,539,471	3,181,215	2,287,625	2,316,889
Charges for services	21,817,344	14,112,958	17,029,881	9,668,285	13,324,845	12,541,445	9,264,732	8,189,038	9,773,256	9,468,478
Recovered costs	3,433,912	3,113,520	2,992,593	3,460,190	6,220,227	3,622,340	4,676,217	4,135,037	4,331,770	4,085,061
Miscellaneous	1,925,019	3,029,616	2,847,396	2,499,809	3,030,478	3,114,090	5,372,509	4,556,269	9,434,921	4,931,402
Intergovernmental	66,566,787	61,837,855	65,943,667	66,665,474	73,155,576	76,192,266	80,210,496	76,140,401	78,533,705	76,639,575
Sale of commodities and property	664,878	394,649	296,891	2,064	3,574,493	139,440	242,770	-	-	-
Total revenues and other sources	191,165,104	187,997,537	199,615,698	205,974,498	235,472,145	245,606,274	257,226,463	258,454,716	269,719,236	258,323,034
<b>Expenditures</b>										
General government	11,831,386	9,929,164	11,900,198	13,415,671	20,992,502	23,229,371	17,701,336	16,146,243	15,503,424	15,711,620
Nondepartmental	5,299,684	8,074,445	4,904,095	5,977,663	-	-	6,681,149	9,503,827	9,276,215	9,975,985
Judicial	17,018,620	14,646,606	17,500,634	16,322,948	17,215,246	18,424,590	19,869,269	20,605,038	19,198,298	18,945,494
Public safety	36,638,079	39,670,980	41,291,931	46,172,069	49,027,166	53,524,102	58,276,566	59,009,982	60,853,783	60,446,711
Public works	17,742,543	14,365,424	16,241,531	14,650,017	16,626,200	17,092,893	18,274,866	17,416,077	15,539,098	16,033,880
Health and welfare	31,510,843	30,361,124	30,711,542	32,985,326	37,175,910	40,762,079	42,530,195	41,062,430	38,131,285	37,792,064
Parks, recreation, and cultural	6,811,007	9,599,708	11,758,214	11,530,155	11,077,141	12,010,340	12,804,623	12,230,804	11,577,153	11,608,738
Community development	7,294,938	7,673,720	7,009,129	9,858,641	9,383,948	11,418,822	9,435,979	9,033,730	9,476,115	7,175,300
Debt service:										
Principal	7,559,714	9,368,684	11,644,093	10,664,670	12,044,668	13,681,588	15,818,354	14,251,629	10,467,075	9,843,352
Interest	11,810,710	10,309,474	8,184,113	9,840,530	10,867,394	10,708,805	11,465,427	10,329,837	11,185,563	12,332,018
Education	32,012,359	28,166,130	28,541,291	31,352,585	36,670,336	42,683,991	49,845,490	49,818,483	48,171,651	48,171,651
Capital outlay	19,592,723	10,523,767	13,192,881	18,728,969	14,604,621	27,392,620	32,181,996	21,638,382	33,722,150	58,653,655
Total expenditures	205,122,606	192,689,226	202,879,652	221,499,244	235,685,132	270,929,201	294,885,253	281,043,462	283,161,810	306,690,468
<b>Excess of revenues over (under) expenditures</b>	(13,957,502)	(4,691,689)	(3,263,954)	(15,524,746)	(212,987)	(25,322,927)	(37,658,790)	(22,588,746)	(13,442,574)	(48,367,434)
<b>Other financing sources (uses)</b>										
Transfers in	11,032,383	9,062,933	9,424,450	16,346,941	19,874,456	23,954,536	24,610,728	20,261,687	22,382,161	22,117,233
Transfers out	(9,487,088)	(9,612,570)	(9,068,639)	(7,891,613)	(12,085,891)	(15,449,048)	(15,483,292)	(11,137,307)	(16,730,817)	(16,492,768)
Proceeds from capital leases	-	-	-	1,715,354	-	-	-	358,080	-	-
Proceeds from debt issued	30,727,391	4,031,858	80,715,550	11,167,049	-	-	-	157,743	2,219,887	-
Payments from component unit	237,921	-	-	-	(49,926)	(67,183)	(24,491)	-	(351,552)	(1,777,830)
Discount on bonds issued	-	-	-	-	(49,926)	(67,183)	(24,491)	-	-	-
VPSA Subsidy	-	-	-	-	(69,336,929)	(38,330,411)	(36,133,012)	(45,565,623)	1,324,727	-
Payments to escrow agent	(24,205,213)	-	-	-	-	(7,980,000)	-	-	-	-
Payment for current refunding of debt	768,467	-	-	-	-	1,440,585	310,130	994,187	839,121	3,908,502
Premium on bonds issued	-	-	-	-	-	24,635,213	23,259,753	-	74,345,113	68,547,102
General obligation bonds issued	-	-	-	-	-	-	-	-	-	-
BAN Proceeds	-	-	-	-	-	-	-	-	-	-
Refunding bonds issued	24,205,213	-	-	-	-	40,624,787	43,640,000	-	45,725,000	(46,778,674)
Total other financing sources (uses)	33,279,074	3,482,221	11,734,432	21,287,805	36,091,556	31,577,868	9,127,436	40,367,215	82,662,362	31,301,395
Special item -		-	-	-	(2,236,629)	-	-	-	-	-
Payment to component unit										
<b>Net change in fund balances</b>	\$ 19,321,572	(1,209,468)	8,470,478	5,763,059	33,641,940	6,254,941	(28,531,354)	17,778,469	69,159,788	(17,066,039)
Debt service as a percentage of noncapital expenditures	10.44%	10.80%	10.45%	10.11%	10.36%	10.02%	10.39%	9.48%	8.68%	8.94%

## CITY OF PORTSMOUTH, VIRGINIA

B-1

### Assessed Value and Estimated Actual Value of Taxable Real Property

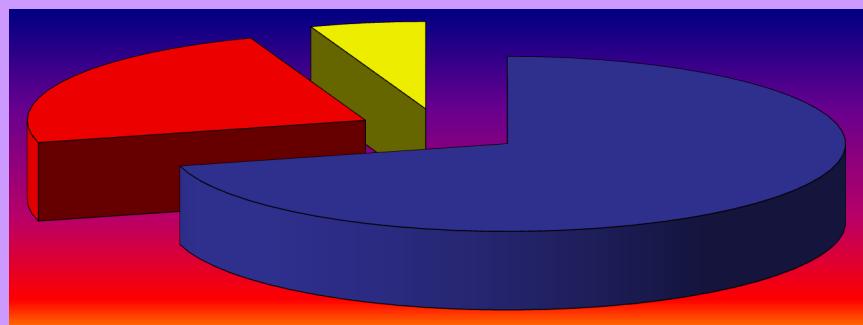
Last Ten Fiscal Years

(in thousands of dollars)

Fiscal Year Ended 30-Jun	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2011	\$ 5,198,747	\$ 1,729,629	\$ 404,688	\$ 7,333,064	1.24	\$ 9,155,769
2010	5,452,716	1,818,679	406,222	7,677,617	1.24	9,570,375
2009	5,456,525	1,717,052	418,087	7,591,664	1.21	9,338,509
2008	4,967,919	1,487,540	203,354	6,658,814	1.26	8,747,238
2007	4,128,828	1,507,162	104,730	5,740,721	1.36	7,752,616
2006	3,314,028	1,091,120	87,007	4,492,155	1.44	6,239,104
2005	2,886,714	995,814	78,203	3,960,731	1.45	4,125,762
2004	2,581,971	960,422	66,868	3,609,261	1.42	3,759,647
2003	2,432,943	909,501	92,597	3,435,041	1.42	3,578,168
2002	2,309,567	850,129	90,687	3,250,383	1.42	3,385,816

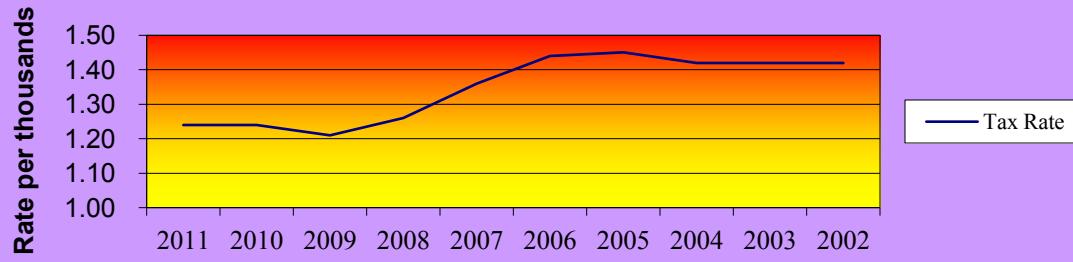
Source: City Assessor's Office

FY11 Taxable Assessed Values



■ Residential Property   ■ Commercial Property   ■ Industrial Property

Tax Rate for Last Ten Fiscal Years

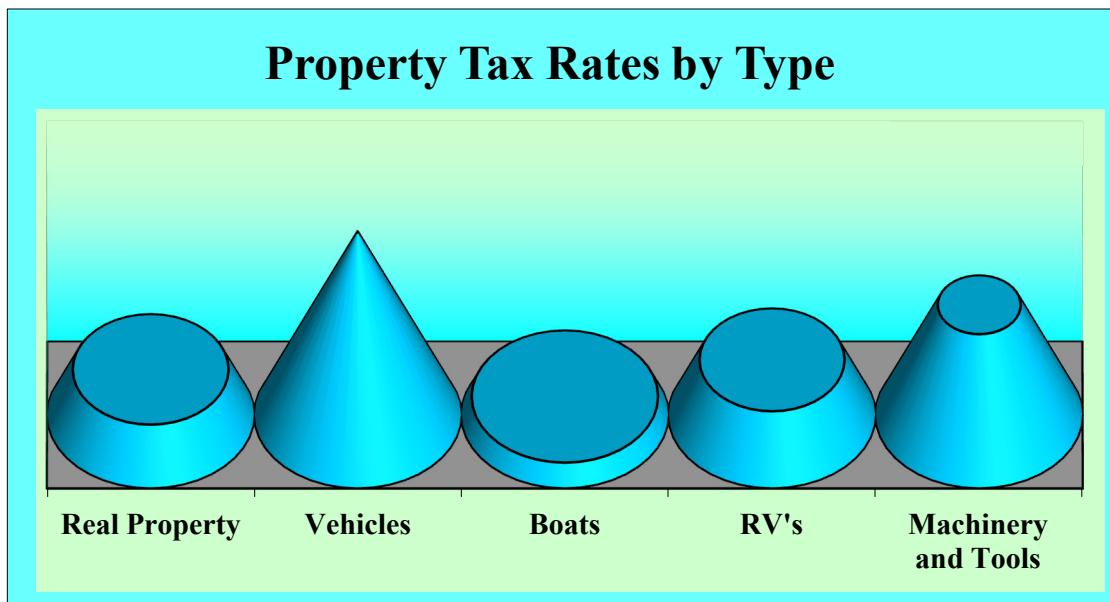


**CITY OF PORTSMOUTH, VIRGINIA****B-2****Property Tax Rates**

Last Ten Fiscal Years

Fiscal Year	Real Property (1)	Personal Property (2)			Manufacturer's Machinery and Tools (3)
		Vehicles	Boats	RV's	
2011	\$ 1.24	5.00	0.50	1.50	3.00
2010	1.24	5.00	0.50	1.50	3.00
2009	1.21	5.00	0.50	1.50	3.00
2008	1.26	5.00	0.50	1.50	3.00
2007	1.36	5.00	0.01	1.50	3.00
2006	1.44	5.00	0.01	1.50	3.00
2005	1.45	5.00	0.01	1.50	3.00
2004	1.42	4.35	0.01	1.50	3.00
2003	1.42	4.35	0.01	1.50	3.00
2002	1.42	4.35	0.01	1.50	3.00

- (1) As required by State law, real estate is assessed at 100% of estimated fair market value. The real estate rate is per \$100 of assessed value.
- (2) Most personal property, primarily vehicles and boats, is assessed at 100% of the National Automobile Dealer Association (NADA) average loan values and BUC Boat Price Guide values. Business personal property is assessed using a predetermined depreciation schedule.
- (3) The assessment basis for Manufacturer's Machinery and Tools is calculated on a straight 50 percent of original cost method. The tax rate is per \$100 of assessed value.



**CITY OF PORTSMOUTH, VIRGINIA**  
**Principal Property Tax Payers**  
**Current Year and Nine Years Ago**

**B-3**

Taxpayer	2011		2002	
	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
APM Terminals of Virginia	\$ 400,635,063	2.62%		
Virginia Electric and Power	33,936,464	0.41%	71,476,378	1.9%
GEM Portsmouth High LLC	33,851,910	0.41%		
Earl Industries	33,257,456	0.40%		
G & E Apartment REIT The Myrtles	30,144,020	0.36%		
Portsmouth Economic Development Authority	25,586,995	0.31%		
Economic Development Authority of Portsmouth	25,356,290	0.30%		
Westwinds Property LLC	22,597,350	0.27%	14,635,177	.4%
Portsmouth Venture One LLC	22,245,440	0.27%		
Portsmouth Genco LLC	21,897,670	0.26%		
BASF Corporation			45,098,874	1.20%
Columbia Gas of Virginia, Inc.			31,598,510	.9%
Verizon Virginia , Inc.			46,617,891	1.4%
KMC Telecom of Virginia, Inc			28,354,932	.9%
Gwaltney of Smithfield			14,195,971	.4%
Cogentrix			21,452,390	.6%
ALLTEL Communications, Inc.			18,416,955	.5%
Universal Maritime Service Corporation			5,133,851	.1%
	649,508,658	7.80%	296,980,929	6.0

Source: City Assessor's Office and Commissioner of the Revenue's Office

**CITY OF PORTSMOUTH, VIRGINIA  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

**B-4**

**Real Estate:**

Tax Year	Fiscal Year Ending	Original Tax Levy		Taxes Collected In Year of Levy	Percent of Taxes Collected In Year of Levy	Delinquent Taxes Collected to June 30, 2011	Total Tax Collections to June 30, 2011	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2011	Percent of Levy Collected to June 30, 2011
		Tax	Year							
2010	June 30, 2011	\$ 89,613,578		84,590,952	94.4	-	84,590,952	(1,080,524)	3,942,102	95.55
2009	June 30, 2010	92,594,347		88,287,197	95.3	3,481,833	91,769,030	(281,356)	543,961	99.41
2008	June 30, 2009	89,813,809		85,735,326	95.5	4,090,702	89,826,028	254,232	242,013	99.73
2007	June 30, 2008	82,061,047		80,767,754	98.4	3,553,521	84,321,275	2,359,620	99,392	99.88
2006	June 30, 2007	74,858,725		71,559,330	95.6	3,797,334	75,356,664	459,742	(38,197)	100.00
2005	June 30, 2006	64,686,492		60,652,216	93.8	2,948,528	63,600,744	(1,073,575)	12,173	99.98
2004	June 30, 2005	57,430,022		53,825,077	93.7	2,572,456	56,407,533	(1,014,735)	7,754	99.99
2003	June 30, 2004	51,250,872		47,590,435	92.9	2,292,411	49,882,846	(1,361,146)	6,880	99.99
2002	June 30, 2003	47,827,632		45,196,717	94.5	2,911,515	48,108,232	286,035	5,435	99.99
2001	June 30, 2002	45,398,154		42,537,095	93.7	2,915,225	45,452,320	60,064	5,898	99.99

**Personal Property:**

Tax Year	Fiscal Year Ending	Original Tax Levy (2)		Taxes Collected In Year of Levy (1)	Percent of Taxes Collected In Year of Levy (1)	Delinquent Taxes Collected to June 30, 2011	Total Tax Collections to June 30, 2011	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2011	Percent of Levy Collected to June 30, 2010
		Tax	Year							
2011	June 30, 2011	\$ 18,093,172		13,653,563	75.5	-	13,653,563	2,227,615	6,667,224	67.19
2010	June 30, 2010	19,582,168		14,843,139	75.8	8,762,214	23,605,353	4,979,062	955,877	96.11
2009	June 30, 2009	19,030,247		14,156,894	74.4	8,333,263	22,490,157	4,111,531	651,621	97.18
2008	June 30, 2008	20,213,758		13,813,758	68.3	10,005,522	23,819,280	4,183,199	577,677	97.63
2007	June 30, 2007	21,976,362		16,079,906	73.2	5,829,915	21,909,821	260,502	327,043	98.53
2006	June 30, 2006	22,160,657		16,589,424	74.9	5,523,384	22,112,808	162,686	210,535	99.06
2005	June 30, 2005	25,437,164		19,732,957	77.6	8,961,706	28,694,663	3,257,499	-	100.00
2004	June 30, 2004	21,146,587		16,418,177	77.6	7,538,425	23,956,602	2,810,015	-	100.00
2003	June 30, 2003	21,210,705		15,908,602	75.0	6,570,141	22,478,743	1,268,036	-	100.00
2002	June 30, 2002	18,725,282		14,725,710	78.6	8,346,719	23,072,429	4,347,146	-	100.00

- (1) Personal property taxes are assessed on property owned as of January 1 and become due June 5th of each year. Because the due date falls so near the last day of the fiscal year, there is normally a substantial amount of delinquent taxes receivable as of the close of the fiscal year, the majority of which is collected in the following fiscal year.

- (2) Excludes \$9,887,920.89 tax credit and the collection \$9,862,962 tax credit payment from the Commonwealth for FY11.  
The original levy for FY11 is \$29,473,417.70 less the tax credit of \$11,380,245.88 equaling the \$18,093,171.82 as shown.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
*(dollars in thousands, except per capita)*

C-1

Fiscal Year	Governmental Activities						Business-Type Activities						
	General Obligation Bonds	General Obligation Notes	Cooperation Agreements	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Debt	Government Bonds	Revenue Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2011	\$ 265,940	50,455	-	1,875	17,254	-	335,524	125,832	-	2,574	463,930	*	4,864
2010	241,816	25,329	-	2,250	13,474	-	282,869	130,284	-	2,208	415,361	10.18%	4,348
2009	199,733	-	-	2,625	16,765	-	219,123	103,454	-	3,128	325,705	*	3,319
2008	203,499	6,796	-	3,000	18,116	-	231,411	107,628	-	2,232	341,271	10.05%	3,428
2007	217,814	6,794	-	3,375	18,451	3	246,437	111,996	-	2,219	360,652	11.06%	3,558
2006	171,311	7,980	34,725	3,850	18,949	683	236,132	98,372	-	1,227	335,731	10.78%	3,280
2005	120,384	7,980	51,014	4,325	22,584	644	205,643	70,198	8,138	970	284,949	9.67%	2,827
2004	122,058	7,980	53,144	4,800	22,343	1,050	209,275	67,154	8,423	564	285,416	10.12%	2,860
2003	128,879	-	55,174	5,275	22,893	1,747	210,474	69,789	8,698	339	289,300	10.67%	2,909
2002	135,492	-	56,495	5,750	23,016	649	220,104	73,400	8,963	991	303,458	11.92%	3,048

\* Information not available at this time

**CITY OF PORTSMOUTH, VIRGINIA**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**  
*(dollars in thousands, except per capita)*

**C-2**

Fiscal Year	General Bonded Debt Outstanding (1)					Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds (1)	General Obligation Leases	Literary Loans	Cooperation Agreement	Total		
2011	\$ 442,227	8,340	1,875	-	452,442	4.94%	*
2010	279,932	9,564	2,250		291,746	3.05%	3,054
2009	212,851	10,435	2,625	-	225,911	2.42%	2,302
2008	223,726	10,782	3,000	-	237,508	2.72%	2,386
2007	238,621	10,291	3,375	-	252,287	3.25%	2,489
2006	193,867	10,684	3,850	-	208,401	3.34%	2,036
2005	128,364	15,920	4,325	10,200	158,809	3.85%	1,576
2004	130,038	17,773	4,800	11,380	163,991	4.36%	1,643
2003	128,879	18,239	5,275	12,500	164,893	4.61%	1,658
2001	114,061	18,778	-	-	132,839	3.98%	1,332

(1) Includes general obligation bonds and notes, public utility bonds, golf bonds, and parking bonds.

\* Information not available at this time

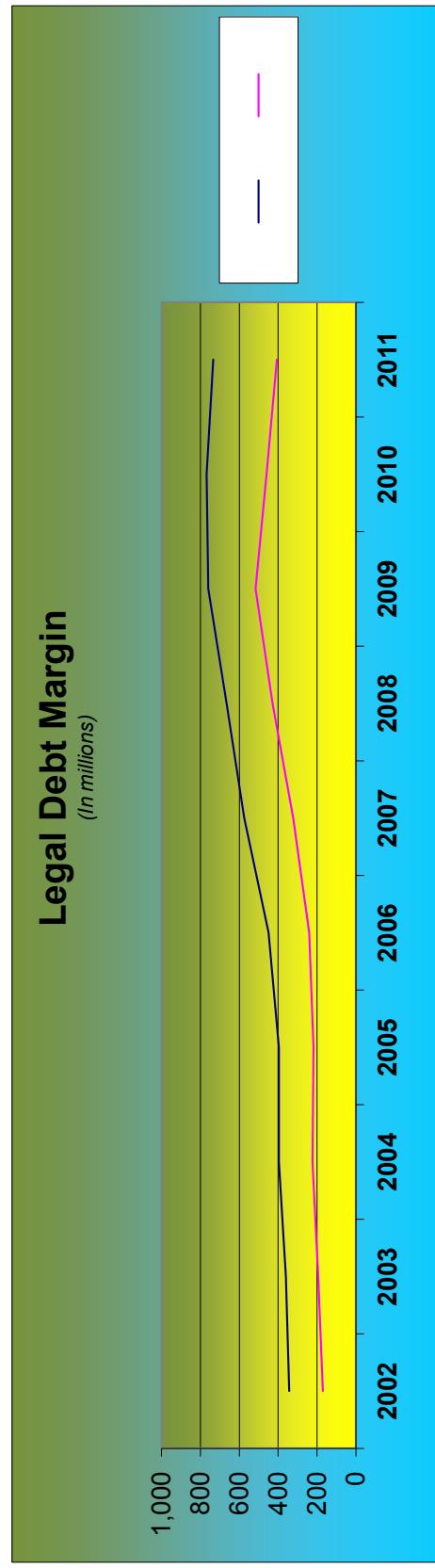
**CITY OF PORTSMOUTH, VIRGINIA**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**  
*(dollars in thousands)*

C-3

**Legal Debt Margin Calculation for Fiscal Year 2011**

Assessed value	\$ 7,333,064
Debt limit (10% of assessed value)	733,306
Debt applicable to limit:	326,609
<b>Legal debt margin</b>	<b>\$ 406,697</b>

		Fiscal Year									
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 343,504	360,926	396,073	396,073	449,215	574,072	665,881	759,166	767,762	733,306	
Total net debt applicable to limit	172,762	167,125	171,992	176,610	208,401	252,287	236,589	241,689	308,221	326,609	
Legal debt margin	170,742	193,801	224,081	219,463	240,814	321,785	429,292	517,477	459,541	406,697	
Total net debt applicable to limit as a percentage of debt limit	50.3%	46.3%	43.4%	44.6%	46.4%	43.9%	43.9%	35.5%	31.8%	40.1%	44.5%



**CITY OF PORTSMOUTH, VIRGINIA**  
**Pledged-Revenue Coverage**  
**Last Ten Fiscal Years**  
(dollars in thousands)

Fiscal Year	Gross Revenue	Golf Bonds				
		Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2011	\$ -	-	-	-	-	- *
2010	-	-	-	-	-	- *
2009	-	-	-	-	-	- *
2008	-	-	-	-	-	- *
2007	-	-	-	-	-	- *
2006	-	-	-	-	-	- *
2005	2,510	1,550	960	290	410	1.37
2004	1,813	1,645	168	275	426	0.24
2003	2,306	1,422	884	270	431	1.26
2002	5,791	1,343	4,448	255	441	6.39

\* There are no outstanding revenue bonds for fiscal years 2006, 2007, 2008, 2009, 2010 and 2011.

Note: Source of pledged revenue is derived from rates, fees, and charges for the use of and for the services furnished by the Golf facilities.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

**D-1**

Year	Population (1)	Personal Income (thousands of dollars) (1)	Per Capita Personal Income (1)	Median Age (1)	School Enrollment (2)	Unemployment Rate (3)
2011	95,388	*	*	35	14,103	8.80%
2010	95,535	3,898,401	40,806	35	14,225	9.30%
2009	98,124	*	*	34	14,331	8.30%
2008	99,542	3,394,538	34,102	34	14,287	5.10%
2007	101,377	3,261,006	32,167	34	14,990	4.10%
2006	102,346	3,113,454	30,421	42	15,243	4.30%
2005	100,783	2,946,028	29,231	35	15,309	5.30%
2004	99,785	2,821,237	28,273	*	15,642	5.40%
2003	99,459	2,712,472	27,272	*	15,928	5.40%
2002	99,569	2,545,662	25,567	*	16,221	5.30%

(1) Bureau of Economic Analysis, U.S. Department of Commerce; from Weldon Cooper Center for Public Service, University of Virginia; City of Portsmouth, VA Department of Economic Development

(2) Portsmouth School Board

(3) Virginia Employment Commission, Economic Information Services Division. Labor Market Information.

\* Information not available at this time.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Principal Employers**  
**Current Year and Nine Years Ago**

**D-2**

Employer	2011			2002		
	# of Employees	Rank	Percentage of Total City Employment	# of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	9,000	1	18.89%	7,400	1	17.07%
Naval Medical Center, Portsmouth	5,400	2	11.33%	5,487	2	12.66%
City of Portsmouth	2,585	3	5.43%	2,400	4	5.54%
Portsmouth Public Schools	2,192	4	4.60%	2,665	3	6.15%
Bon Secours Maryview Medical Center	2,000	5	4.20%	2,200	5	5.07%
US Fifth District Coast Guard Command	1,500	6	3.15%	1,900	6	4.38%
Earl Industries	900	7	1.89%	450	9	1.04%
Gwaltney of Smithfield	435	8	0.91%	504	8	1.16%
Wal-Mart Supercenter	300	9	0.63%	-	-	0.00%
CDI Marine	164	10	0.34%	140	-	0.32%
Alternative Behavior Services (FHC)	-	-	-	800	7	1.85%
BASF Corporation	-	-	-	129	10	0.30%
Total	24,476		51.37%	24,075		55.53%

Source: Portsmouth Department of Economic Development

**CITY OF PORTSMOUTH, VIRGINIA**  
**Full-time Equivalent Employees by Function/Program**  
**Last Ten Fiscal Years**

**E-1**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General Fund</b>										
General government	196	142	138	131	138	134	146	144	133	167
Judicial	242	235	236	233	233	237	252	252	249	240
Public Safety	599	603	598	598	599	599	600	597	591	590
Public Works	63	114	108	107	107	110	108	104	359	359
Health and Welfare	1	1	1	-	-	-	-	-	-	-
Parks, Recreational, and Leisure Services	140	131	153	126	146	124	126	120	127	126
Community Development	57	59	44	65	44	70	67	66	48	48
<b>Total General Fund</b>	<b>1,298</b>	<b>1,285</b>	<b>1,278</b>	<b>1,260</b>	<b>1,267</b>	<b>1,274</b>	<b>1,299</b>	<b>1,283</b>	<b>1,507</b>	<b>1,530</b>
<b>Special Revenue Funds</b>										
Willett Hall Fund	-	-	3	-	1	1	1	1	1	1
Comprehensive Services Fund	2	2	3	3	3	3	3	3	3	3
Stormwater Management Fund	33	34	33	33	33	33	31	31	23	23
Grants	-	31	-	-	31	31	31	31	28	24
Behavioral Health Services Fund	147	128	128	129	129	130	137	137	122	120
Public Law Library Fund	-	-	-	-	-	-	-	-	-	-
Social Services Fund	244	244	245	247	247	254	254	254	248	245
<b>Total Special Revenue Funds</b>	<b>426</b>	<b>439</b>	<b>412</b>	<b>412</b>	<b>444</b>	<b>452</b>	<b>457</b>	<b>457</b>	<b>425</b>	<b>416</b>
<b>Capital Projects Fund</b>										
Community Development	-	-	2	2	2	2	-	-	-	-
<b>Enterprise Funds</b>										
Public Utilities Fund	145	145	143	143	143	146	145	145	138	138
Golf Fund	19	19	19	19	19	19	19	19	17	17
Waste Management Fund	75	75	73	73	73	76	75	75	68	68
Parking Authority Fund	6	6	6	6	6	6	6	6	6	6
<b>Total Enterprise Funds</b>	<b>245</b>	<b>245</b>	<b>241</b>	<b>241</b>	<b>241</b>	<b>247</b>	<b>245</b>	<b>245</b>	<b>229</b>	<b>229</b>
<b>Internal Service Funds</b>										
City Garage Fund	41	41	42	41	41	41	41	41	36	36
Information Technology Fund	41	42	40	40	40	32	39	39	26	26
Risk Management Fund	4	5	-	1	3	3	2	2	8	3
<b>Total Internal Service Funds</b>	<b>86</b>	<b>88</b>	<b>82</b>	<b>82</b>	<b>84</b>	<b>76</b>	<b>83</b>	<b>82</b>	<b>70</b>	<b>65</b>
<b>Total All Funds</b>	<b>2,055</b>	<b>2,059</b>	<b>2,015</b>	<b>1,997</b>	<b>2,038</b>	<b>2,049</b>	<b>2,084</b>	<b>2,067</b>	<b>2,231</b>	<b>2,240</b>

**CITY OF PORTSMOUTH, VIRGINIA**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

**E-2**

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Physical arrests	10,835	10,506	15,333	10,724	10,571	7,895	9,852	9,747	10,374	9,422
Parking violations	7,857	8,698	8,124	8,652	8,228	8,001	15,821	8,124	12,162	9,023
Traffic violations	8,496	17,006	13,603	17,896	12,294	6,774	11,431	11,424	16,140	15,594
Fire										
Emergency responses	*	*	*	*	*	17,310	17,386	17,035	14,073	16,135
Fires extinguished	*	*	*	*	*	855	662	623	590	506
Inspections	*	*	*	*	*	1,785	900	1,259	1,875	1,638
Refuse collection										
Refuse collected (tons/day)	*	*	*	*	*	162	151	165	126	158
Recyclables collected (pounds/day)	*	*	*	*	*	2	2	3	5	35
Other public works										*
Street resurfacing (miles)	*	*	*	*	*	26.3	17.8	44.9	20.6	19.2
Potholes repaired	*	*	*	*	*	1,324	1,491	911	1,045	1,344
Parks and recreation										
Community center admissions	*	*	*	*	*	262,399	308,891	308,891	274,571	281,145
Library										
Volumes in collection	*	*	*	*	*	338,601	371,256	338,971	276,874	260,889
Total volumes borrowed	*	*	*	*	*	380,040	337,447	370,870	376,946	383,265
Water										
New connections	*	*	*	*	*	136	176	255	105	2,959
Water main breaks	*	*	*	*	*	125	126	102	105	88
Average daily consumption (millions of gallons)	17.74	17.74	17.85	17.97	18.81	16.56	13.90	13.80	13.60	13.4
Peak daily consumption (millions of gallons)	*	*	*	*	*	26.69	17.53	16.90	16.70	16.56

\* Information not available at this time.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

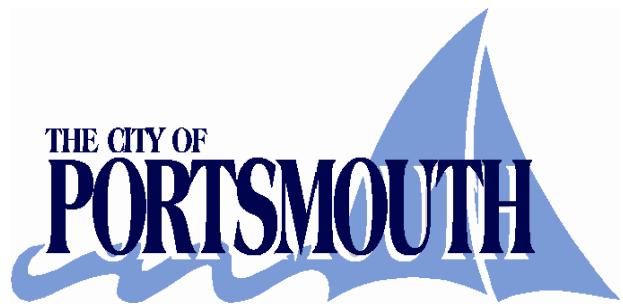
**E-3**

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	244	235	234	234	242	252	255	255	255	236
Fire stations	8	8	8	8	8	8	8	8	8	8
Refuse collection	*	*	*	*	*	26	26	27	27	27
Collection trucks										
Other public works										
Streets (miles)	402	402	403	402	398	398	351	403	393	*
Highway (miles)	*	*	*	*	888	888	82	82	82	*
Streetlights	11,585	11,585	11,634	10,722	10,693	10,661	10,665	10,665	10,665	*
Traffic signals	*	*	*	*	115	130	120	120	120	*
Parks and recreation										
Acreage	402	402	203	203	250	402	402	402	402	402
Playgrounds	*	*	*	*	12	13	13	13	13	13
Baseball/softball diamonds	*	*	*	*	39	36	36	36	36	36
Soccer/football fields	*	*	*	*	35	34	34	34	34	34
Community centers	8	8	7	7	7	7	7	7	7	7
Water										
Water mains (miles)	625	625	625	543	543	626	626	626	626	626
Fire hydrants	2,523	2,521	2,523	2,530	2,514	2,530	2,530	2,530	2,593	2,593
Storage capacity (millions of gallons)	*	*	*	*	8.50	8.50	8.50	8.50	9	9
Wastewater										
Sanitary sewers (miles)	437	437	437	437	437	438	438	438	438	438
Storm sewers (miles)	107	107	107	107	159	159	159	159	159	159
Treatment capacity (millions of gallons)	32	32	32	32	32	32	32	32	32	32

\* Information not available at this time.

## **COMPLIANCE SECTION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of City Council  
City of Portsmouth, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the individual and aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests discovered no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Bekant & Holland, L.L.P.*

Virginia Beach, Virginia  
January 6, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE INACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of City Council  
City of Portsmouth, Virginia

***Compliance***

We have audited the compliance of the City of Portsmouth, Virginia (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Portsmouth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

***Internal Control Over Compliance***

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over

compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the City Council, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Bekant & Holland, L.L.P.*

Virginia Beach, Virginia  
January 6, 2012

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2011

<b>Federal Granting Agency/Pass Through Agency/Grant Program</b>	<b>Federal Catalogue Number</b>	<b>Federal Expenditures</b>
<b>Department of Agriculture:</b>		
Direct payments:		
Summer Food Service Program for Children	10.559	\$ 409,198
Pass-through payments:		
Virginia Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	1,959,522
Virginia Department of Education -		
National School Breakfast and Lunch Program	10.555, 10.553	4,796,929
Total Department of Agriculture		7,165,649
<b>Department of Defense:</b>		
Direct payments:		
National Defense Education Program	12.300	300
ROTC	12.000	214,028
Total Department of Defense		214,328
<b>Department of Education:</b>		
Direct payments:		
Impact Aid	84.041	530,409
ARRA - IMPACT Aid Discretionary Construction	84.401	<u>1,151,941</u>
		1,682,350
Pass-through payments:		
Virginia Department of Education:		
Adult Education	84.002	174,177
Virginia Department of Education:		
Title I, Part A Cluster		
Title I Grants to Local Education Agencies	84.010	6,798,986
ARRA - Title I Grants A	84.389	<u>1,515,375</u>
		8,314,361
Special Education (IDEA) Cluster:		
Special Education (Title VI-B)	84.027	3,507,460
ARRA - IDEA Title (VIB) Section 619	84.391	415,206
Special Education - Preschool Grants	84.173	99,678
ARRA - Special Education - Preschool Grants	84.392	<u>42,412</u>
		4,064,756
Title I School Improvements (1003g)	84.377	62,767
Education Technology State Grants Cluster:		
Special Education - Grants for Infants and Family	84.181	101,909
ARRA - Special Education Grants for Infants and Family	84.393	<u>57,535</u>
		159,444
Safe and Drug Free Schools and Communities	84.186	68,910
Education Improvement Fund	84.215	15,503
Education Technology State Grant	84.318	60,942
ARRA - Education Technology State Grants	84.396	<u>55,419</u>
		116,361
Improving Literacy Through Library Education	84.364	444,675
Improving Teacher Quality	84.367	1,201,226
Smart Art Afterschool Program	84.251	16,611
ARRA - State Stabilization Fund	84.394	5,496,110
Education for Homeless Children & Youth	84.196	19,008
Vocational Education	84.048	467,336
Va. Comp Board -State Fiscal Stability- Govt Services ARRA	84.397	-
Total Department of Education		22,303,595

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2011

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
<b>Environmental Protection Agency, Office of Environmental Education:</b>		
ARRA - Capitalization for Drinking Water State Revolving Fund	66.468	1,781,863
Total Environmental Protection Agency		1,781,863
<b>Department of Health and Human Services:</b>		
Virginia Department of Social Services:		
Social Services Block Grant	93.667	1,213,429
Temporary Assistance for Needy Families	93.558	1,783,555
Child Care and Development Fund Cluster:		
Child Care and Development Fund	93.596	1,146,705
Child Care and Development Block Grant	93.575	645,710
ARRA - Child Care	93.713	<u>78,466</u> 1,870,881
Chafee Education & Training Vouchers Program		
Medical Assistance Program - Title XIX	93.599	47,223
Foster Care - Title IV-E	93.778	1,129,235
	93.658	1,101,065
ARRA - Foster Care - Title IV-E	93.658	<u>36,395</u> 36,395
Adoption Assistance	93.659	510,869
ARRA - Adoption Assistance	93.659	<u>33,010</u> 33,010
Independent Living	93.674	45,741
Low-Income Home Energy Assistance	93.568	132,996
Refugee and Entrant Assistance	93.566	3,982
Promoting Safe and Stable Families	93.556	136,918
State Children's Insurance Program	93.767	59,608
Child Welfare Services	93.645	7,980
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
VASIP/COSIG	93.243	1,000
Projects for Assistance in Transition from Homelessness	93.150	66,613
Block Grants for Community Mental Health Services	93.958	180,261
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,085,561
Total Department of Health and Human Services		9,446,322
<b>Department of Homeland Security:</b>		
Direct Payments:		
Homeland Security Cluster:		
Urban Areas Security Initiative	97.008	22,498
Community Emergency Response Teams	97.053	<u>17,868</u> 40,366
State and Local All Hazards Emergency Operations Planning		
LEMPG	97.051	61
Port Security	97.042	7,492
State Homeland Security (HazMat)	97.056	184,719
	97.073	22,819
Total Department of Homeland Security		255,457
<b>Department of Housing and Urban Development:</b>		
Direct payments:		
Community Development Block Grant	14.218	1,042,343
ARRA - Community Development Block Grant-R	14.218	4,589
ARRA - Housing Prevention Rapid Rehousing	14.257	<u>306,314</u> 310,903
Special Purpose Grant	14.225	
HOME Investment Partnerships Program	14.239	542,777
Emergency Shelter Grants Program	14.231	
Shelter Plus Care	14.238	426,287
Supportive Housing	14.235	95,651
Neighborhood Stabilization Program	14.256	432,053
Program and other income:		

**CITY OF PORTSMOUTH, VIRGINIA****Schedule of Expenditures of Federal Awards**

Year ended June 30, 2011

<b>Federal Granting Agency/Pass Through Agency/Grant Program</b>	<b>Federal Catalogue Number</b>	<b>Federal Expenditures</b>
Community Development Block Grant	14.218	129,709
HOME Investment Partnerships Program	14.239	17,442
Total Department of Housing and Urban Development		2,997,165

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2011

<b>Federal Granting Agency/Pass Through Agency/Grant Program</b>	<b>Federal Catalogue Number</b>	<b>Federal Expenditures</b>
<b>Department of Justice:</b>		
Direct Payments:		
Weed and Seed	16.595	11,443
Federal Seizures	16.000	84,560
Pass-through payments:		
Virginia Department of Criminal Justice Services:		
Juvenile Accountability Incentive Block Grant	16.523	40,099
U.S. Department of Justice:		
Justice Assistance Grant Program	16.738	159,523
Bulletproof Vest Partnership Program	16.607	6,631
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	113,176
Total Department of Justice		415,432
<b>Department of Labor:</b>		
Pass-through Payments:		
Opportunity, Inc.:		
ARRA - WIA Summer Youth Work Experience	17.259	47,375
Total Department of Labor		47,375
<b>Department of Transportation:</b>		
Pass-through Payments:		
Federal Transit Administration-Hampton Roads Transit:		
Highway Planning and Construction	20.205	163,289
ARRA - Traffic Signal Improvements	20.932	763,683
Virginia Department of Motor Vehicles:		
Safety Town Instruction & Safety Materials for Elementary School Classes	20.600	2,344
Comprehensive Speed, DUI/Passenger and CMV Occupant Restraint Enforcen	20.607	33,623
Total Department of Transportation		962,939
<b>Department of Energy:</b>		
Direct Payments:		
ARRA - Energy Efficiency Cons Block Grant	81.128	300,052
Total Department of Energy		300,052
Total all agencies	\$	45,890,177

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2011

<b>Federal Granting Agency/Pass Through Agency/Grant Program</b>	<b>Federal Catalogue Number</b>	<b>Federal Expenditures</b>
* Major Program	Schools	<u>27,138,797</u>
	VPA non-cash food stamps	-
	City	<u>18,751,380</u>

**CITY OF PORTSMOUTH, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**Year Ended June 30, 2011**

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**1. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

The type of report issued on the financial statements: **Unqualified**

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **None reported**

Noncompliance which is material to the financial statements: **No**

**Federal Awards:**

The type of report issued on compliance for major programs: **Unqualified**

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **None reported**

Any audit findings disclosed that are required to be reported in  
Accordance with Section 510(a) of OMB Circular A-133: **No**

**Major Programs:**

- Child Nutrition Cluster (CFDA No. 10.553/10.555/10.559)
- State Administrative Matching Grants for Food Stamp Program (CFDA No. 10.561)
- Temporary Assistance for Needy Families (CFDA No. 93.558)
- ARRA -State Fiscal Stabilization Fund (CFDA No. 84.394)
- ARRA - Impact Aid (CFDA No. 84.041/84.401)
- ARRA - Title I Part A Cluster (CFDA No. 84.010/84.389/84.377)
- ARRA - Capitalization for Drinking Water State Revolving Grants (CFDA No. 66.468)
- ARRA - Foster Care IV-E (CFDA No. 93.658)
- ARRA - Child Care and Development Fund Cluster(CFDA No. 93.596/93.575/93.713)
- ARRA - Energy Efficiency and Conservation Block Grant Program (CFDA No. 81.128)

(h) The dollar threshold used to distinguish between Type A and Type B program: **\$1,376,705**

(i) The auditee qualified as a low-risk auditee: **Yes**

**CITY OF PORTSMOUTH, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*continued*)**

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**Year Ended June 30, 2011**

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- 2. FINDINGS - FINANCIAL STATEMENT AUDIT - None**
- 3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS - None**
- 4. FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE - None**

**CITY OF PORTSMOUTH, VIRGINIA**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

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**Year Ended June 30, 2011**

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No prior year audit findings.